

ORDINANCE O-4846

AN ORDINANCE OF THE CITY OF KIRKLAND DESIGNATING THE NE 85TH STREET STATION TAX INCREMENT AREA; SETTING A SUNSET DATE FOR THE INCREMENT AREA; IDENTIFYING THE PUBLIC IMPROVEMENTS TO BE FINANCED; INDICATING THE CITY'S INTENT TO ISSUE BONDS TO FINANCE PUBLIC IMPROVEMENT COSTS IN A MAXIMUM PRINCIPAL AMOUNT NOT TO EXCEED \$58,000,000; PROVIDING THAT THE INCREMENT AREA WILL TAKE EFFECT ON JUNE 1, 2023; IMPOSING A DEADLINE FOR COMMENCEMENT OF CONSTRUCTION; AND PROVIDING FOR RELATED MATTERS.

1           WHEREAS, for many recent years, the City has been studying,  
2 evaluating, designing and completing key infrastructure improvements  
3 to enable a mixed-use, transit oriented, and walkable development with  
4 high tech and family wage jobs, plentiful affordable housing, sustainable  
5 buildings, park amenities, commercial and retail services near the 85th  
6 Street Station (Station Area); and  
7

8           WHEREAS, the City has identified a proposed Tax Increment  
9 Area (TIA) of approximately 52.5 acres of property that is a portion of  
10 the Station Area east of I-405 being planned for the envisioned  
11 development and is in need of substantial infrastructure improvements  
12 to support the desired development; and  
13

14           WHEREAS, the TIA has the opportunity, if developed, to provide  
15 a variety of housing types, parks, open space and commercial amenities  
16 for the community providing for increased tax revenues to support City  
17 services and providing employment opportunities and housing options  
18 for the residents of the City; and  
19

20           WHEREAS, the Washington State Legislature, during its 2021  
21 legislative session, enacted Engrossed Substitute House Bill 1189 as  
22 Chapter 207, Laws of 2021, titled "AN ACT Relating to tax increment  
23 financing" and codified as Chapter 39.114 RCW (the "TIF Act"), which  
24 authorizes local governments, including cities, to carry out tax increment  
25 financing of public improvements needed to support vital private  
26 economic development projects; and  
27

28           WHEREAS, that the TIF Act authorizes the allocation of property  
29 tax revenues generated from the increased assessed valuation of  
30 properties within a TIA to pay for public improvements that are needed  
31 to support the private development; and  
32

33           WHEREAS, City management has identified public improvements  
34 (TIF Projects) to support the desired development based on market  
35 conditions necessary to accommodate housing demands and  
36 commercial tenants; and  
37

38           WHEREAS, the TIF Projects are estimated to cost approximately  
39 \$58 million to construct; and

40 WHEREAS, City management anticipates bringing forward for  
41 Council consideration agreements between the City and future  
42 developers that memorializes the infrastructure improvement  
43 responsibilities and private development associated with the TIF  
44 Projects; and

45  
46 WHEREAS, the City has prepared a Project Analysis for the  
47 proposed TIA and submitted such to the Office of the State Treasurer  
48 for review and comment as required by law; and

49  
50 WHEREAS, the Office of the State Treasurer has completed its  
51 review of the Station Area Project Analysis and has stated that the  
52 Project Analysis, supported by the supplemental documents, generally  
53 addresses the topics listed in subsection (2) of RCW 39.114.020; and

54  
55 WHEREAS, the City has considered the comments that the Office  
56 of the State Treasurer provided upon completion of their review of the  
57 Project Analysis; and

58  
59 WHEREAS, there exists no TIA within the City and the TIA does  
60 not consist of the entire geographical area of the City and does not have  
61 an assessed valuation of more than \$200,000,000 or more than 20% of  
62 the City's total assessed valuation; and

63  
64 WHEREAS, the City has conducted public briefings on and  
65 provided notice of the proposed TIA to inform the community and other  
66 public agencies about the anticipated benefits and impacts associated  
67 with the development.

68  
69 NOW, THEREFORE, the City Council of the City of Kirkland do  
70 ordain as follows:

71  
72 Section 1. Definitions. Capitalized terms used in this ordinance  
73 shall have the meanings set forth in the recitals to this ordinance above  
74 and in this Section 1. The uncapitalized terms "public improvement  
75 costs," "regular property taxes," and "tax allocation revenues," used in  
76 this ordinance shall have the meanings provided for those terms by RCW  
77 39.114.010, as the context requires.

- 78  
79 (a) "City" means the City of Kirkland, Washington.  
80  
81 (b) "Code" means the Internal Revenue Code of 1986, as amended,  
82 and applicable rules and regulations promulgated thereunder.  
83  
84 (c) "Council" means the Kirkland City Council, acting in its legislative  
85 capacity.  
86  
87 (d) "County" means King County, Washington.  
88  
89 (e) "Finance Director" means the Director of Finance and  
90 Administration of the City or such other officer of the City who succeeds  
91 to substantially all of the responsibilities of that office.

92 (f) "Increment Area" means the approximately 52.5 acres of land  
 93 designated by Section 2 of this ordinance as the "NE 85th Street Station  
 94 Increment Area."  
 95

96 (g) "Project Analysis" means the City's NE 85th Street Station Final  
 97 TIF Project Analysis submitted to the Washington State Treasurer on  
 98 March 6, 2023 for its review and comment.  
 99

100 (h) "Treasurer's Review Letter" means the letter to the City from the  
 101 Office of State Treasurer dated March 27, 2023, summarizing its review  
 102 of and providing comments, recommendations, and acceptance with  
 103 respect to the Project Analysis for consideration by the City.  
 104

105 Section 2. Designation of Increment Area. Pursuant to the TIF  
 106 Act, the City designates the 52.5 -acre parcel of land known as the NE  
 107 85th Street Station development and described in **Exhibit A** to this  
 108 ordinance as the "NE 85th Street Station Increment Area." In making  
 109 this designation, the Council finds that the Increment Area (i) is the only  
 110 increment area designated by the City under the TIF Act, (ii) is located  
 111 within the boundaries of the City, (iii) does not include the City's entire  
 112 territory, and (iv) does not have an assessed value on the date of this  
 113 ordinance greater than the lesser of \$200,000,000 or 20 percent of the  
 114 total assessed value of taxable property within the City of  
 115 \$48,351,973,565.  
 116

117 Section 3. Sunset Date of the Increment Area. The sunset date  
 118 of the Increment Area is hereby set as (i) December 31, 2049, which is  
 119 the date not later than 25 years after the first year (calendar year 2024)  
 120 in which tax allocation revenues will be collected on taxable property  
 121 within the Increment Area (the "outside sunset date"), or (ii) if earlier,  
 122 the date ("an early sunset date") on which the City certifies to the  
 123 County Treasurer that all public improvement costs to be paid or  
 124 reimbursed with tax allocation revenues derived from the Increment  
 125 Area have been fully paid, including but not limited to reimbursements  
 126 to the City for principal and interest payments required to be made by  
 127 the City from revenue sources other than tax allocation revenues on  
 128 limited tax general obligation bonds issued to finance the portion of  
 129 public improvement costs that are intended to be paid and retired, in  
 130 whole, from tax allocation revenues, as authorized by RCW  
 131 39.114.060(1).  
 132

133 Section 4. Identification of Public Improvements to Be Financed.  
 134 The public improvements to be financed consist of the following  
 135 infrastructure improvements to be owned by the City and located within  
 136 or outside of and serving the Increment Area:  
 137

138 (a) Streets, roads, streetlights, and other road  
 139 improvements needed to serve the Increment Area;  
 140

141 (b) Park land acquisition and development needed to serve  
 142 the Increment Area; and  
 143

144 (c) Water and sewer infrastructure improvements needed to  
 145 serve the Increment Area;

146 The exact timing, specifications, and features of the public  
147 improvements described above are to be determined by the City. As  
148 authorized by RCW 39.114.020(1)(h), the City may expand, alter, or add  
149 to the public improvements identified above only if City Council  
150 determines that such changes are necessary to assure that the public  
151 improvements identified above can be constructed or operated as  
152 intended. If the City Council determines that it has become impractical  
153 to acquire, construct, or equip any, or any portion of, the public  
154 improvements by reason of changed conditions or costs substantially in  
155 excess of the amount of bond proceeds or tax allocation revenues, the  
156 City shall not be required to acquire, construct, or equip such public  
157 improvements or portions.

158  
159 Section 5. Expected Issuance of Bonds to Finance a Portion of  
160 the Public Improvement Costs.

161  
162 (a) Pursuant to RCW 39.114.060 and other law, including the  
163 applicable provisions of Chapters 39.36 and 39.46 RCW, the City intends  
164 to incur general indebtedness and issue limited tax general obligation  
165 bonds with a term of approximately 25 years to finance a portion (the  
166 "bond-financed portion") of the public improvement costs to be paid in  
167 whole or in part from tax allocation revenues. The City expects to pledge  
168 the tax allocation revenues received by the City from the Increment  
169 Area, the City's other regular property tax revenues, other lawfully  
170 available revenues of the City, and the full faith and credit of the City.  
171 The bonds are expected to be issued as tax-exempt bonds under the  
172 applicable provisions of the Code; however, if and to the extent that  
173 bond counsel determines that any of the public improvements (or  
174 portions thereof) do not qualify to be financed with tax-exempt bonds,  
175 the City expects to allocate funding sources other than proceeds of tax-  
176 exempt bonds, including but not limited to proceeds of taxable bonds,  
177 to the financing of those public improvements (or portions thereof).

178  
179 (b) As of the date of adoption of this ordinance, the  
180 estimated maximum principal amount of bonds expected to be issued  
181 by the City to finance the bond-financed portion of the public  
182 improvement costs is \$58 million. This estimated maximum principal  
183 amount of bonds is subject to change based upon the final timing,  
184 specifications, and features of the public improvements and the final  
185 public improvement costs of the public improvements identified in  
186 Section 4 of this ordinance. The amount of the proceeds of such bonds  
187 also may vary (be lower or higher than the maximum principal amount  
188 of \$58 million) to the extent that the bonds are sold with original issue  
189 premium or original issue discount (respectively).

190  
191 (c) While the City will pledge its full faith and credit as well  
192 as its regular property tax revenues and other lawfully available  
193 revenues, in addition to tax allocation revenues received by the City  
194 from the Increment Area, to pay debt service on the bonds, the City  
195 intends that debt service on the bonds shall be payable, in whole, from  
196 tax allocation revenues as authorized by RCW 39.114.060(1).  
197 Accordingly, if and to the extent debt service payments on its general  
198 obligation bonds issued to finance the public improvements are required



199 to be made from the City's other regular property tax revenues and/or  
200 from other lawfully available revenues because the amount of tax  
201 allocation revenues received are insufficient for that purpose, those debt  
202 service payments to that extent may be reimbursed from later-received  
203 tax allocation revenues that become available to reimburse the City for  
204 those debt service payments.

205  
206 (d) The City intends that the provisions of Section 4 of this  
207 ordinance (identifying the public improvements to be financed) and this  
208 Section 5 (stating the estimated maximum amount of bonds expected  
209 to be issued) together shall constitute a declaration of official intent  
210 under Treasury Regulations §1.150-2 to reimburse with bond proceeds  
211 any original expenditures for the public improvements paid before the  
212 issue date of the bonds that are intended to finance the bond-financed  
213 portion of the public improvement

214  
215 Section 6. Increment to Take Effect on June 1, 2023. The  
216 Increment Area designated in Section 2 of this ordinance shall take  
217 effect on June 1, 2023.

218  
219 Section 7. Deadline for Commencement of Construction of Public  
220 Improvements. The City expects that construction of the public  
221 improvements identified in Section 4 of this ordinance will commence  
222 after June 1, 2023. Commencement of construction of these public  
223 improvements shall begin by May 16, 2028, the date five years from the  
224 date of adoption of this ordinance, unless that deadline is extended for  
225 good cause.

226  
227 Section 8. Required Findings by the City Council. Based upon  
228 the Project Analysis, the Council finds that:

229  
230 (a) The public improvements proposed to be paid or financed with  
231 tax allocation revenues are expected to encourage private development  
232 within the Increment Area-i.e., the private development of the NE 85th  
233 Street Station development area, and to increase the assessed value of  
234 real property within the Increment Area;

235  
236 (b) The private development that is anticipated to occur within the  
237 Increment Area as a result of the proposed public improvements will be  
238 permitted consistent with the applicable zoning and development  
239 standards of the City, which is expected to be the permitting jurisdiction  
240 for the Increment Area;

241  
242 (c) The private development would not reasonably be expected to  
243 occur solely through private investment within the reasonably  
244 foreseeable future without the proposed public improvements; and

245  
246 (d) The increased assessed value of taxable property within the  
247 Increment Area that could reasonably be expected to occur without the  
248 proposed public improvements would be less than the increase in the  
249 assessed value estimated to result from the proposed private  
250 development with the proposed public improvements.

251 Section 9. Preparation and Consideration of Project Analysis. As  
252 required by RCW 39.114.020(2), the Council has caused the Project  
253 Analysis, attached hereto as **Exhibit B**, to describe and analyze, among  
254 other matters, the factors and considerations listed in that statute. The  
255 Council takes note of the conclusion expressed in the Treasurer's Review  
256 Letter that the City's Project Analysis, supported by the supplemental  
257 documents, generally addresses the topics listed in subsection (2) of  
258 RCW 39.114.020. In its consideration and adoption of this ordinance,  
259 the Council has reviewed and considered, among other things, the  
260 Project Analysis and the Treasurer's Review Letter, attached hereto as  
261 **Exhibit C**, including the "Key Risks to the City" and "Recommendations"  
262 noted in the Treasurer's Review Letter.

263  
264 Section 10. Reimbursement of Expenses Incurred by County  
265 Assessor and County Treasurer. Pursuant to RCW 39.114.020(6), the  
266 City may enter into arrangements to reimburse the County Assessor and  
267 County Treasurer for the expenses incurred by those officials in  
268 connection with the implementation and ongoing administration of the  
269 Increment Area as described in RCW 39.114.010(6)(e). Such expenses  
270 shall be a portion of the public improvement costs to be paid or  
271 reimbursed from tax allocation revenues derived from the Increment  
272 Area.

273  
274 Section 11. Public Briefings Held by the City. As required by  
275 RCW 39.114.020(7)(a), the City has held two public briefings for the  
276 community regarding the NE 85th Street Station development and the  
277 public improvements needed to serve the Increment Area. These public  
278 briefings were held on April 20, 2023, and April 26, 2023, and  
279 announced to the public at least two weeks prior to the date each  
280 briefing was held by publishing notice in the Seattle Times, a legal  
281 newspaper of general circulation in the City and the greater County  
282 area, and by posting information on the City's website and on all of its  
283 social media sites. Each public briefing included a description of the  
284 Increment Area, the public improvements proposed to be financed with  
285 tax allocation revenues derived from the Increment Area, and a detailed  
286 estimate of tax revenues for the participating local governments and  
287 taxing districts, including the amounts allocated to the public  
288 improvements serving the Increment Area. The City also has provided  
289 additional briefings for elected and administrative officials of the County.

290  
291 Section 12. Publication of Notice and Delivery of Ordinance  
292 Designating Increment Area. On May 1, 2023, which is at least two  
293 weeks before the date of adoption of this ordinance, the City published,  
294 in the Seattle Times, a legal newspaper of general circulation within the  
295 jurisdiction of the City, a notice that describes the public improvements,  
296 describes the boundaries of the Increment Area, and identifies the  
297 location and times where this ordinance and other public information  
298 concerning the public improvements may be inspected. Following the  
299 adoption of this ordinance, the City will deliver a certified copy of this  
300 adopted ordinance to the County Treasurer, the County Assessor, and  
301 the governing body of each taxing district within which the Increment  
302 Area is located at the respective addresses specified pursuant to  
303 RCW 42.56.040 within 10 days of the date on which the ordinance was  
304 adopted.


305           Section 13. General Authorization and Ratification. The  
 306 appropriate officers of the City are severally authorized to take such  
 307 actions and to execute such documents as in their judgment may be  
 308 necessary or desirable to carry out the tax increment financing of the  
 309 public improvements serving the Increment Area contemplated in  
 310 connection with this ordinance. All actions taken prior to the effective  
 311 date of this ordinance in furtherance of the purposes described in this  
 312 ordinance and not inconsistent with the terms of this ordinance are  
 313 ratified and confirmed in all respects.

314  
 315           Section 14. Severability. The provisions of this ordinance are  
 316 declared to be separate and severable. If a court of competent  
 317 jurisdiction, all appeals having been exhausted or all appeal periods  
 318 having run, finds any provision of this ordinance to be invalid or  
 319 unenforceable as to any person or circumstance, such offending  
 320 provision shall, if feasible, be deemed to be modified to be within the  
 321 limits of enforceability or validity. However, if the offending provision  
 322 cannot be so modified, it shall be null and void with respect to the  
 323 particular person or circumstance, and all other provisions of this  
 324 ordinance in all other respects, and the offending provision with respect  
 325 to all other persons and all other circumstances, shall remain valid and  
 326 enforceable.


327  
 328           Section 15. Effective Date of Ordinance. This ordinance shall be  
 329 in force and effect five days from and after its passage by the Kirkland  
 330 City Council and publication pursuant to Section 1.08.017, Kirkland  
 331 Municipal Code in the summary form attached to the original of this  
 332 ordinance and by this reference approved by the City Council.

333  
 334           Passed by majority vote of the Kirkland City Council in open  
 335 meeting this 16th day of May, 2023.

336  
 337           Signed in authentication thereof this 16th day of May, 2023.

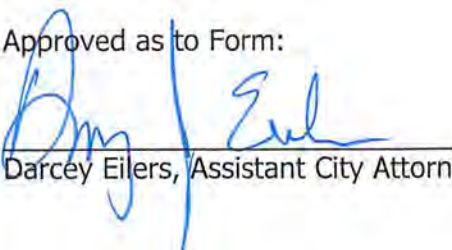
  
 Penny Sweet, Mayor

Attest:

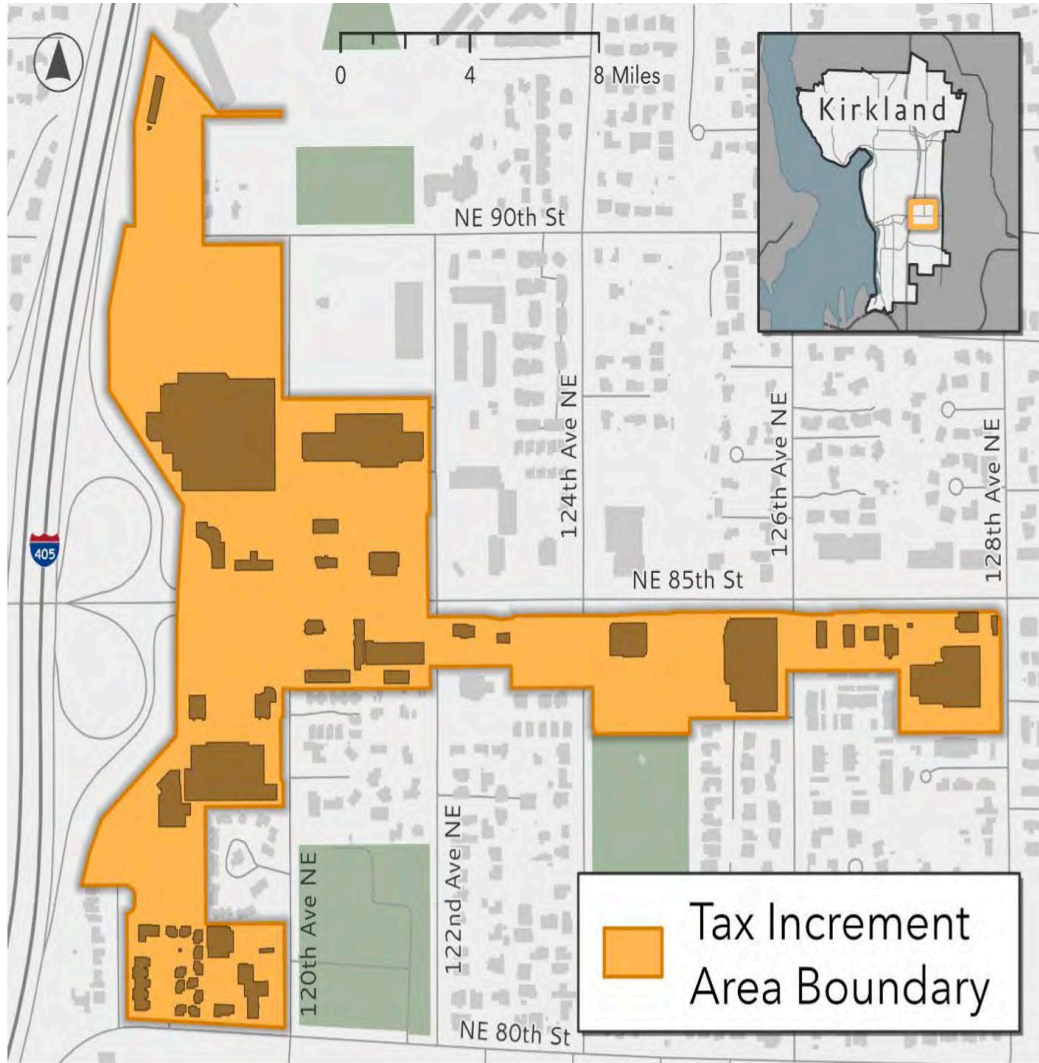
  
 Kathi Anderson, City Clerk

Publication Date: May 22, 2023

Approved as to Form:

  
 Darcey Eilers, Assistant City Attorney

### Exhibit A: Tax Increment Area (TIA)



**Parcels in the NE 85th Street Station Tax Increment Area, King County WA include:**

<b>Parcel ID</b>	<b>Parcel ID</b>	<b>Parcel ID</b>	<b>Parcel ID</b>
1238500140	1233100281	1233100161	1233100545
1238500135	1233100216	1233100155	1233100540
1238500132	1233100215	1233100151	1233100405
1238500125	1233100200	1233100150	1233100402
1238500115	1233100198	1233100145	1238500055
6453600000	1233100197	1233100141	1238500050
4146790000	1233100190	1233100080	1238500035
1233100400	1233100172	1233100075	1233100535
1233100291	1233100171	1233100680	
1233100290	1233100530	1233100555	
1233100282	1233100170	1233100550	



# KIRKLAND NE 85<sup>TH</sup> STREET STATION AREA Tax Increment Financing (TIF) PROJECT ANALYSIS

NE 85th Study Area Future Vision, Looking West



Final | March 6, 2023  
Draft | November 7, 2022

## **ACKNOWLEDGEMENTS**

This Project Analysis was prepared for the City of Kirkland by Stowe Development & Strategies, LLC in association with ECONorthwest.

The Project Analysis represents a thorough and comprehensive evaluation of a future Tax Increment Financing program and establishment of a Tax Increment Area for a significant and large in-fill development opportunity in the NE 85<sup>th</sup> Street Station Area. The production of this report would not have been possible without the participation, collaboration, and guidance of the following individuals and groups.

### **Kirkland City Council**

- Mayor Penny Sweet
- Deputy Mayor Jay Arnold
- Councilmember Neal Black
- Councilmember Kelli Curtis
- Councilmember Amy Falcone
- Councilmember Toby Nixon
- Councilmember Jon Pascal

### **City of Kirkland Staff**

- Kurt Triplett, City Manager
- Tracey Dunlap, Deputy City Manager (now retired)
- Michael Olson, Director of Finance & Administration
- Sri Krishnan, Deputy Director of Finance & Administration
- George Dugdale, Financial Planning Manager
- Kevin Pelstring, Financial Planning Supervisor
- Allison Zike, Deputy Director of Planning & Building

### **Legal and Financial Consultants**

- Deanna Gregory, Bond Counsel, Pacifica Law Group – Partner
- Stacey Crawshaw-Lewis, Bond Counsel, Pacifica Law Group – Partner
- Fred Eoff, Financial Advisor, PFM – Director
- Maggie Marshall, Financial Advisor, PFM - Senior Managing Consultant

### **Tax Increment Financing Consultants**

- Bob Stowe, Stowe Development & Strategies (TIF Project Manager)
- Morgan Shook, ECONorthwest



Table of Contents

- About Kirkland: ..... 4**
- Introduction/Summary..... 5**
  - The City's Objective .....7
- Infrastructure Needs..... 8**
- Private Development.....12**
- Tax Increment Revenue Projections .....15**
  - Overview of TIF Allocation Revenues.....15
  - TIA Allocation Revenue Modeling.....17
  - TIA Allocation Results .....18
    - Assumptions on Incremental Assessed Value Growth ..... 18
    - TIA Allocation Revenues ..... 18
- Debt Service Payments and Coverage .....23**
  - Construction Employment .....25
    - On-going Employment..... 25
- Impact Assessment and Mitigation.....26**
- Financing Plan/Duration of TIA .....27**
- Early Outreach to Impacted Taxing Districts .....28**
- But-For Requirement .....29**
- Additional Incremental Taxes .....31**
  - City of Kirkland ..... 32
  - Tax Base Productivity Assumptions..... 33
  - Summary of Additional Tax Results..... 34
- Kirkland TIF Team.....39**
- Future TIF Actions.....39**
- Findings | Bottom Line .....41**
- APPENDICES .....42**

**About Kirkland:** The City of Kirkland is located on the eastern shore of Lake Washington. It is a suburban city, surrounded by other suburban cities and pockets of unincorporated King County. The City is near several major transportation routes including Interstate 405, State Route 520, and Interstate 5. These routes connect the City economically and socially to the greater Seattle area. At the time of incorporation in 1905, the City of Kirkland's population was approximately 530. The current estimated population is 93,570. Kirkland is the thirteenth largest city in the State of Washington and the sixth largest in King County. Since its incorporation, Kirkland has grown in geographic size to eighteen square miles - approximately twenty times its original size. This growth occurred primarily through the consolidation of the cities of Houghton and Kirkland in 1968, the annexations of Rose Hill and Juanita in 1988 and the annexation of North Juanita, Finn Hill, and Kingsgate areas in 2011. Kirkland operates under a Council-Manager form of government. The City government offers a full range of municipal services which are provided by eleven operating departments. The City boasts fifty-four parks, including eleven that are located on the waterfront, as well as two community centers, a swimming pool, and a teen center. The broad range of recreational facilities provides year-round services for citizens of all ages.

Figure 1. Marina Park



Source: City of Kirkland, 2022

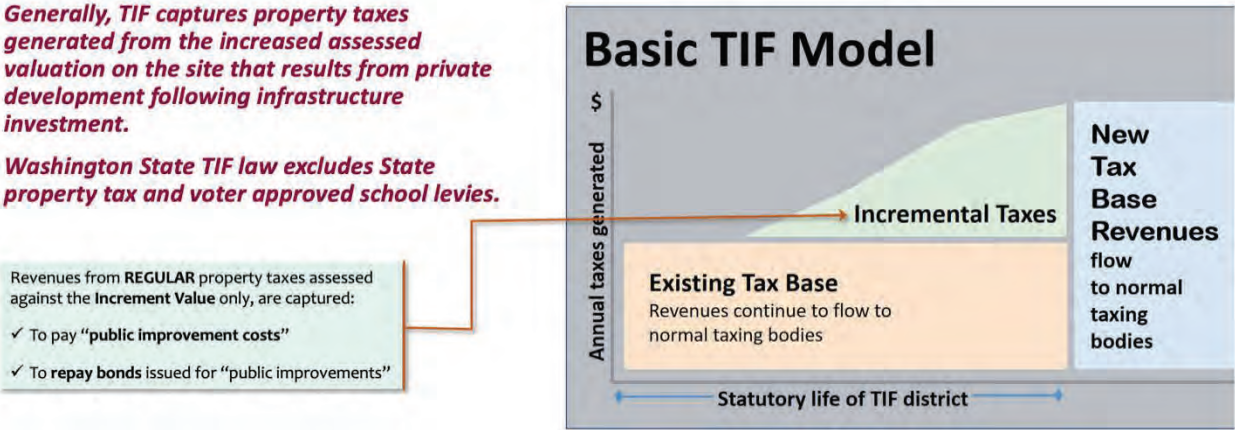


# Introduction/Summary

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

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

Figure 2: Basic TIF Model



Source: Stowe Development & Strategies, 2022

There are several key limitations to TIF in Washington:

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

A key element and consideration when forming a TIA is to evaluate the risks associated with such an action along with the development of a mitigation plan. Using local property tax revenues to finance certain public improvements can encourage and generate the desired or envisioned private

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

A risk and mitigation plan is included in this Project Analysis. This Project Analysis also examines other anticipated revenues from the projected private development (e.g., sales tax on construction, on-going sales tax and utility taxes) and the potential to sequence the appropriate infrastructure improvements with multiple bond issues over time (e.g., 5-year period) as well as structuring the debt service to align with projected property tax revenues generated within the TIA to better manage potential development and revenue risks. Following the adoption of a TIA, the City has multiple levers in which to direct a successful project utilizing property tax revenues generated by the TIA and/or safeguard its other resources. These levers or options include how much debt should be issued and when to issue the debt based the expected private development scope (product type and scale), as well as more refined infrastructure cost estimates. By law, construction of the TIF infrastructure must commence within five years after the adoption of the ordinance forming the TIA, subject to extensions for good cause. Depending on the development interest in the TIA, and the anticipated interest rates, the City could select the debt amount and proceed on the schedule identified in the Project Analysis or modify based on the known conditions at that time. Alternatively, the City could choose not to issue any debt, especially if development interest substantially changes to a very low level or the cost of debt it too high. In this situation, the City could use a pay-as-you-go strategy for the infrastructure. This, however, will likely significantly change the timing and scale of the private development. Finally, the City could also rescind or retire the TIA by ordinance prior to the issuance of any debt.

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

Figure 3. NE 85th St. Station



Source: City of Kirkland, 2022



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

## The Plan’s Vision

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

Figure 4. NE 85<sup>th</sup> Street Vision



Source: City of Kirkland, 2022

## The City's Objective

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

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

Figure 5. NE 85<sup>th</sup> Street Vision



Source: City of Kirkland, 2022

# Infrastructure Needs

The Plan’s vision will require substantial infrastructure investment to support the underlying land use densities and community amenities that have recently been adopted by the City of Kirkland. The October 2021 Fiscal Impact and Community Benefits (FICB) Analysis (included in Appendices) identified infrastructure projects necessary to serve the increased development under the dense zoning contemplated in the Preferred Plan Direction. Many of these projects are likely to be built by developers, but a number of projects are unlikely to be built by a single developer and are necessary to serve the incremental density in the Station Area. The FICB also identified that the proposed development would generate revenues that could help support infrastructure projects. It further identified use of TIF as a mechanism to leverage those revenues. The three projects below were identified as candidates to be supported by TIF on the basis that they were unlikely to be built by any single development and that building them proactively would encourage and support redevelopment in the Station Area. As development is planned and is ready to move forward based on market conditions, the City may add or modify the specific infrastructure improvements and their timing that will be necessary to encourage private development in order to accomplish the Station Area’s Plan Vision. At this time, the City has identified the following projects and costs have been updated from the FICB as part of the Preliminary 2023-2028 CIP development.

## NE 85<sup>th</sup> St and I-405 Sewer Main Capacity Enhancements | Estimated Cost \$16 million.

**Project Description** - To support the future buildout capacity in the Station Area, a new sewer main alignment is needed to cross the I-405 along NE 90<sup>th</sup> Street and to improve the existing sewer line on NE 87<sup>th</sup> Street (see the attached map alignments). This project is included in the City’s Capital Improvement Program (CIP) (project number SSC08900) at \$11.8 million in 2021 dollars. Since this project is scheduled to begin survey, design and permitting, and acquisition in 2026, the estimate has been escalated to \$16.1 million to recognize inflation for construction expected in 2027-2028.

Figure 6. Sewer Enhancements



Source: City of Kirkland, 2022



**Project Schedule**

- Predesign and Pre-application Permitting - 2022-2023
- Design\* and Permitting - 2027
- Right of Way (from WSDOT) - 2026 - 2028
- Construction - 2027-2028

**Project Constraints**

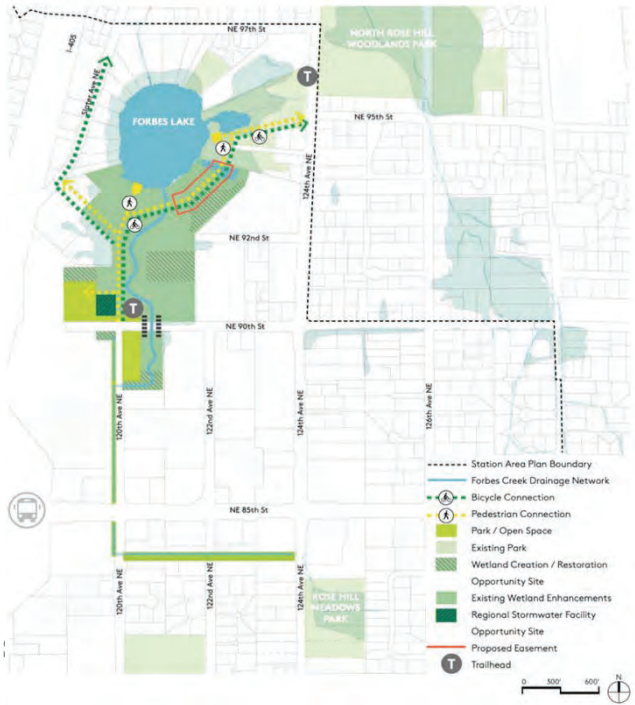
- Acquire WSDOT’s approval to cross I-405, part of pre-design work.
- \*Design will be dependent on the final construction of I-405/NE 85<sup>th</sup> St Inline Bus Rapid Transit Station and Interchange Project, which is scheduled to be completed after the summer of 2026.

**Basis of Funding Need:** Analysis shows that sewer flows from the station area currently run through the pipe segments along the Slater Avenue alignment will exceed their existing design capacity under the build-out scenario in the Station Area. However, upsizing the alignment along Slater has significant environmental and constructability constraints, as well as long-term operational drawbacks. With the new crossing identified, splitting flows between a Station Area crossing and the Slater alignment could meet the build-out service capacity and extend the life cycle of the alignments along Slater Ave.

**Forbes Lake Park Development | Estimated Cost \$12 million**

**Project Description** - Forbes Lake Park is proposed to have a boardwalk with easy connections to North Rose Hill Woodlands Park as well as active transportation facilities nearby. A boardwalk would be a minimum of 10 feet wide to support two-way directional travel with open grate decking to reduce water quality and other ecological impacts. Opportunities for active and passive recreation are imagined. At the southwest corner of 120th Avenue and 90th Street where the parking lot exists, a stormwater retention and treatment may be integrated into open space. The proposed open space options have been selected to avoid and or minimize potential environmental impacts, as required for regulatory compliance and permitting by federal, state, and local agencies, as applicable. An unfunded project is included in the City’s CIP (project number PKC05610) for Park Development (\$7.7M in 2022 dollars), but is included here at \$12M to reflect

**Figure 7. Forbes Lake Park**  
Concept Diagram and Connections



Source: City of Kirkland, 2022

potential cost escalation for inflation as the project will likely be built in 2028 and there may be related property purchases (up to \$2M) that may be funded with TIF funds as part of the new unfunded SAP Parks Acquisition/Opportunity project.

### **Project Schedule**

Land Acquisition: 2023-2024

Pre-design including outreach and master planning: 2024-2025

Design and Permitting: 2026-2027

Construction: 2028

### **Project Constraints**

- Wetlands/permitting
- Segmented parcels comprise the park, easements required
- Pending WSDOT parcels yet to transfer
- Additional properties required to connect to service area south

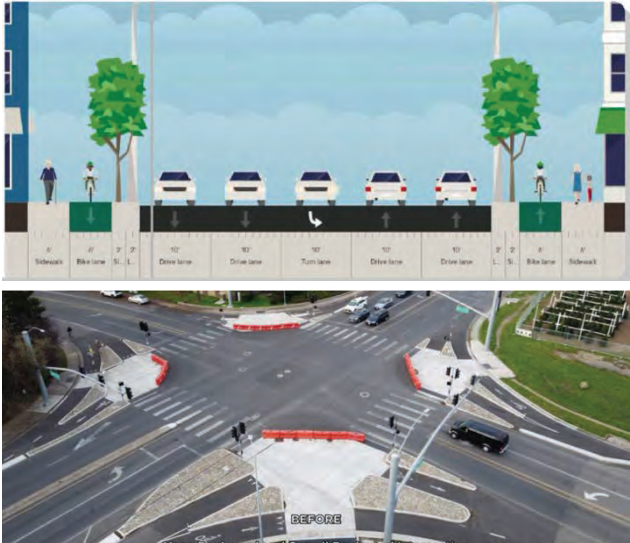
The project will likely require lengthy permitting and mitigation due to the wetlands and sensitive areas. Additional constraints include the segmented parcels which comprise the park. If a loop path system is considered, pedestrian easements would be required. A parcel will also be transferred from WSDOT to the City of Kirkland within the next year. The preferred park development would be best served by acquiring an additional private parcel.

**Basis of Funding Need:** The project's funding basis is supported by the Station Area Plan to support proximate residents as the area grows. The ultimate design intent will support equity of park space, health and wellness and environmental enhancement. Specifically, Forbes Lake Park's location can support maintaining the park system's level of service of providing park space. Although typical level of service calculations relies heavily on population per acres as described above, an urban development does not lend itself to that model as well. Rather than acreage, proximity becomes the primary driver for designing park amenities. Park development as outlined in the SAP considers smaller, neighborhood parks within the development area to provide the most immediate, economical, and convenient experience for residents. Forbes Lake Park is one of the nearest public parks to augment the park system to support the growth in population and needs.

**124th Ave NE Roadway Widening: NE 84<sup>th</sup> Ln to NE 90th St. | Estimated Cost \$30 million.**

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

Figure 8 & 9. 124<sup>th</sup> Ave. NE



Source: City of Kirkland, 2022

**Project Schedule**

- Predesign: 2024
- Design: 2025
- Right of Way: 2026-27
- Construction: 2028-29

**Project Constraints**

- Construction is proposed to be delayed, allowing completion of I-405/NE 85th St Inline Bus Rapid Transit Station and Interchange Project (scheduled to be complete in 2026).
- Right of way acquisition may be time consuming and require the use of condemnation authority.

**Basis of Funding Need:** Analysis included in the environmental review and the Fiscal Impacts and Community Benefits Analysis Supplemental Transportation Study shows that implementing this project is critical to enabling the transportation system to continue to function at an acceptable level of service as growth planned for in the Station Area Plan takes place.

**Summary of Infrastructure Needs**

Project	Estimated Cost	Construction Year
NE 85 <sup>th</sup> St and I-405 Sewer Main Capacity Enhancements.	\$16 Million	2027-2028
Forbes Lake Park Development	\$12 Million	2028
124th Ave NE Roadway Widening: NE 84 <sup>th</sup> Ln to NE 90th St.	\$30 Million	2028-2029



# Private Development

Based on previous work done by the City as part of its Station Area Planning process and environmental review process (and including specifically the Fiscal Impacts and Community Benefits Analysis Technical Memo included in the Appendices), the following three development program scenarios have been generated for purposes of the Project Analysis (some of the development assumptions have been updated since the FICB based on additional information available on specific potential developments). For purposes of the Project Analysis, the Reduced Development scenario has been selected as the most likely to occur since it accounts for not only projects that have a higher certainty of development when TIF is implemented but also other likely redevelopment sites that will benefit from the TIF investments. A modification to the development scenarios has occurred from the time between the draft and final Project Analysis due to the recent announcement of Google not proceeding with its expected office development within the TIA. The new private development scenarios include similar, but less redevelopment and over a longer time period based on the City’s Station Area Plan, completion of the Sound Transit Station, and the City’s TIF infrastructure improvements.

**Baseline:** Represents the full development (most aggressive) to occur in the TIA.

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

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

These scenarios have been developed to help assess potential risk based on different levels of development within the TIA. Understanding and accepting a certain level of risk is important as the City will be obligated for the repayment of any bond debt that is issued for the infrastructure improvements, regardless of whether the projected private development and property tax materialize.

Figure 10. Station Area Plan Private Development Vision



Source: City of Kirkland, 2022



Figure 11. Map of Development Site Scenarios (developed sites highlighted in green)

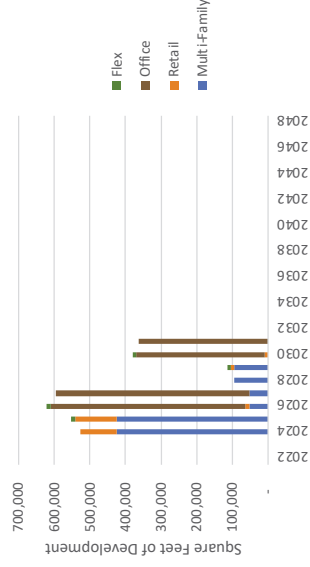
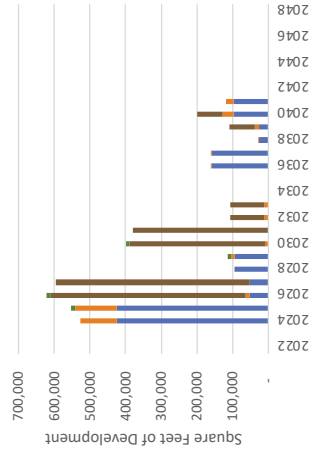
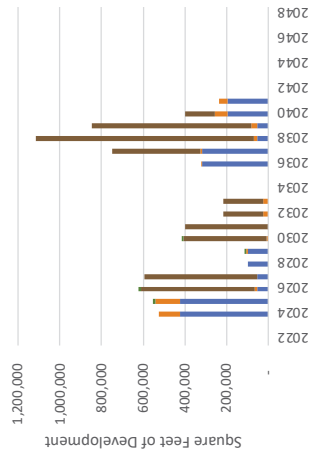
## Baseline



## Reduced



## Core

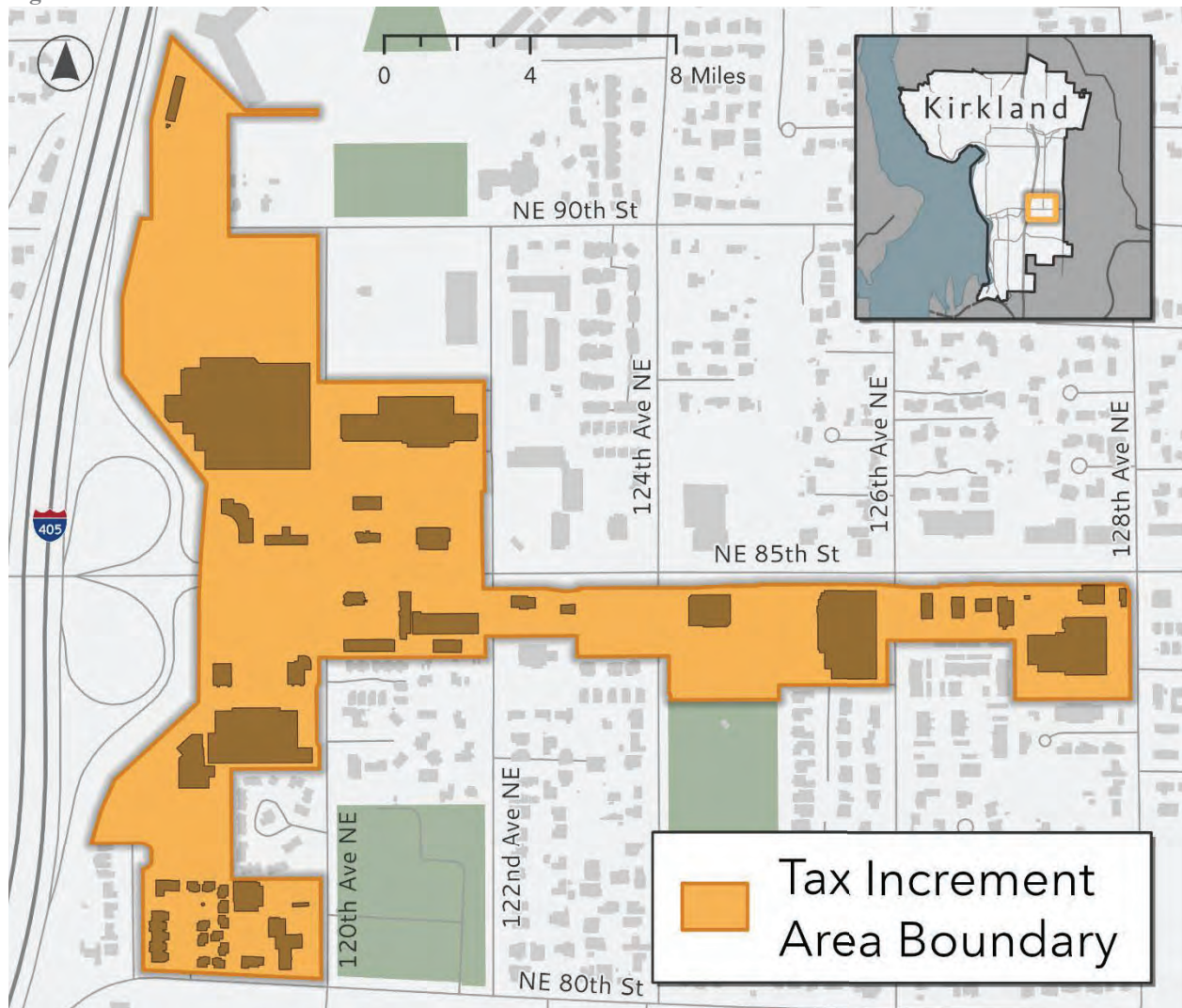


Source: King County Assessor Data, City of Kirkland 85<sup>th</sup> St Station Area Plan, and ECONorthwest, 2022

## Tax Increment Area

The TIA includes a portion of the Station Area east of I-405 of approximately 52.5 acres. The assessed valuation of the TIA in 2022 is approximately \$130,747,600, well below either the \$200 million assessed valuation threshold or 20 percent of the City of Kirkland’s total assessed valuation of \$36,947,748,933 since the TIA is 0.35% of the total City valuation. The TIA boundary was selected in part because it represents key areas that are expected to redevelop over time as the result of the infrastructure improvements funded by TIF and also reserves some capacity to form another TIA in the future provided that the combined assessed value of both TIAs is less than \$200 million at the time the second TIA ordinance is passed.

Figure 12. Tax Increment Area



The following table in the figure summarizes the parcel identification numbers and assessed values of properties in the TIF area.

Figure 13: Summary TIF Parcels

Parcel ID	Appraised Land Value	Appraised Improvement Value	Total Appraised Value	Parcel ID	Appraised Land Value	Appraised Improvement Value	Total Appraised Value
1238500140	\$2,863,600	\$0	\$2,863,600	1233100170	\$2,184,100	\$320,600	\$2,504,700
1238500135	\$834,600	\$0	\$834,600	1233100161	\$385,000	\$0	\$385,000
1238500132	\$1,349,600	\$1,000	\$1,350,600	1233100155	\$1,412,400	\$0	\$1,412,400
1238500125	\$2,463,200	\$309,400	\$2,772,600	1233100151	\$1,280,200	\$0	\$1,280,200
1238500115	\$8,210,900	\$3,704,500	\$11,915,400	1233100150	\$1,335,300	\$0	\$1,335,300
6453600000	\$137,000	\$452,000	\$589,000	1233100145	\$5,429,000	\$0	\$5,429,000
4146790000	\$112,700	\$375,300	\$488,000	1233100141	\$1,280,200	\$0	\$1,280,200
1233100400	\$3,048,400	\$0	\$3,048,400	1233100080	\$1,023,100	\$0	\$1,023,100
1233100291	\$635,300	\$212,000	\$847,300	1233100075	\$1,280,400	\$0	\$1,280,400
1233100290	\$1,443,000	\$1,000	\$1,444,000	1233100680	\$7,452,400	\$1,000	\$7,453,400
1233100282	\$780,800	\$2,707,600	\$3,488,400	1233100555	\$1,497,800	\$547,500	\$2,045,300
1233100281	\$2,077,300	\$4,914,200	\$6,991,500	1233100550	\$0	\$976,100	\$976,100
1233100216	\$1,040,400	\$247,700	\$1,288,100	1233100545	\$1,775,400	\$0	\$1,775,400
1233100215	\$1,922,300	\$1,572,400	\$3,494,700	1233100540	\$1,922,100	\$96,700	\$2,018,800
1233100200	\$1,280,200	\$13,601,700	\$14,881,900	1233100405	\$3,593,000	\$0	\$3,593,000
1233100198	\$1,280,200	\$0	\$1,280,200	1233100402	\$3,438,200	\$997,100	\$4,435,300
1233100197	\$1,280,200	\$0	\$1,280,200	1238500055	\$1,846,100	\$1,000	\$1,847,100
1233100190	\$1,321,700	\$0	\$1,321,700	1238500050	\$2,997,400	\$3,897,800	\$6,895,200
1233100172	\$490,000	\$2,430,400	\$2,920,400	1238500035	\$16,546,200	\$1,000	\$16,547,200
1233100171	\$372,000	\$428,000	\$800,000	1233100535	\$1,648,200	\$0	\$1,648,200
1233100530	\$1,681,700	\$0	\$1,681,700				
Total				\$130,747,600			

## Tax Increment Revenue Projections

### Overview of TIF Allocation Revenues

Following guidance issued by the Washington State Department of Revenue (June 29, 2022), the analysis estimates the apportionment of taxes to the TIA. These revenues are available to the sponsoring local jurisdiction for funding the identified public infrastructure projects (that are named in the ordinance). Under the TIF legislation, only certain regular levies are available to the TIA. Using 2022 levy rates in the Station Area TIA (King County Levy Code Area 1701), only \$3.47 of the \$8.71 total levy, approximately 40%, would be available as shown in the figure below. Since these are regular levies, the taxes must conform with the constitutional 1% limit as well as the \$5.90 aggregate limits. Both parts of the State School levy as well as local school district and other excess levies are excluded. In addition, any taxes levied by port districts for the purpose of making payment on bonds would be excluded.

However, this current tax allocation analysis excludes certain King County levy lid lifts from the TIF allocation revenue analysis due to the uncertain future levels of these levies, bringing the reference 2023 tax rate closer to \$2.93, even though these levy lid lifts would, under the Department of Revenue guidance, be subject to TIF revenue allocation. While there may be a likelihood that the county would seek to reauthorize these funds, they are excluded to provide a more “conservative” estimate of regular levy capacity.

Broadly, TIF in Washington allocates a portion of incremental property taxes to the TIA based on the amount of assessed value added to the TIA. This means that each taxing district in the TIA will receive that portion of its regular property taxes produced by the rate of tax levied by the taxing district based on the assessed value of real property located in the area for taxes imposed in the year that the TIA was created. It does this by allowing for the increment value (growth in assessed value less the value of new construction) to be treated as an “add-on” value that is not subject to the 1% levy limit growth factor.

This amount will flow to the member districts for the period that the TIA is in place. The local government that created the TIA will receive a portion of the regular property taxes levied by each taxing district based off the increment value within the increment area. For the local government that created the TIA, this includes their own portion of their regular levy. Property taxes from the TIA begin on the calendar year following the passage of the ordinance. The County Treasurer will distribute these funds to the agency that created the TIA.

The figure below shows the Levy Rate Composition for 2023 Taxes.

Figure 14. Levy Rate Composition for 2023 Taxes (2022 Valuations)

Levy Code Area 1701	2023 Taxes Rates	Exempt: State Property Tax	Exempt: Excess and Other Levies	Available for TIF allocation
<b>Total</b>	<b>\$8.71224</b>	<b>\$2.8170</b>	<b>\$2.9703</b>	<b>\$2.9250</b>
<b>State</b>				
Part 1	\$1.84810	\$1.8481		\$0.0000
Part 2	\$0.96885	\$0.9689		\$0.0000
<b>County</b>				
Regular_Current Expense	\$0.55836			\$0.5584
Regular_Veterans Aid	\$0.00468			\$0.0047
Regular_Mental Health	\$0.01050			\$0.0105
LID Lift_Parks	\$0.18584		\$0.1858	\$0.0000
LID Lift_Veterans/Families/Seniors	\$0.09159		\$0.0916	\$0.0000
LID Lift_AFIS	\$0.03187		\$0.0319	\$0.0000
LID Lift_Childrens/Justice Center	\$0.00000		\$0.0000	\$0.0000
LID Lift_Radio Communications	\$0.04911		\$0.0491	\$0.0000
LID Lift_Best Start for Kids	\$0.19000		\$0.1900	\$0.0000
Transportation	\$0.04419			\$0.0442
Marine/Ferry	\$0.00907			\$0.0091
Conservation Futures	\$0.03117			\$0.0312
Bond Fund	\$0.02189		\$0.0219	\$0.0000
<b>Port</b>				
General Fund	\$0.05786			\$0.0579
Bond Fund	\$0.05747		\$0.0575	\$0.0000
<b>Flood Control</b>				
Regular Levy	\$0.08146			\$0.0815
<b>RTA-Sound Transit</b>				
Regular Levy	\$0.18409			\$0.1841
<b>City of Kirkland</b>				
Regular Levy	\$1.12027			\$1.1203
<b>EMS</b>				
Regular Levy	\$0.24841			\$0.2484
<b>School</b>				
#414 Enrichment	\$0.82265		\$0.8227	\$0.0000
#414 Bond	\$0.80200		\$0.8020	\$0.0000
#414 Capital	\$0.71792		\$0.7179	\$0.0000
<b>Fire District</b>				
Regular Levy	\$0.00000			\$0.0000
<b>Hospital District #2</b>				
Regular Levy	\$0.24732			\$0.2473
<b>Library District</b>				
Regular Levy	\$0.32757			\$0.3276

### TIA Allocation Revenue Modeling

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

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

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

- Inflation (impacting the cost of construction) is assumed to be 3%.
- The City's assessed valuation growth is assumed to grow at a rate of 2.75% a year. This is the average real growth in assessed value growth.
- Once new built structures are placed on the tax assessments, these properties are also assumed to grow at a real rate of 2.75% a year after their initial assessment.
- Outside of new construction growth within the tax increment area, new construction within the City is assumed to be no more than 1.7% of the City's assessed value base.

## **TIA Allocation Results**

### ***Assumptions on Incremental Assessed Value Growth***

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

### ***TIA Allocation Revenues***

The following tables summarizes the discounted value of 25 years of TIA allocation revenues that would flow to the Station Area TIA created by the City of Kirkland (first year of revenues is 2024) based on the three development program scenarios identified above of Baseline, Reduced, and Core. The revenues are discounted at a rate of 4.5% to approximate the City's cost of capital (debt and issuance costs). Additional sensitivity analysis is also provided by discounting the revenues by 5% and 5.5%. This type of present value analysis is meant to approximate overall debt capacity;



however, actual debt service capacity must consider how municipal debt is structured for the length of the repayment.

The Baseline development scenario supported by TIF could generate between \$63 and \$73 million in TIF allocation revenues (25-year PV between 5.5% and 4.5%). The Reduced and Core development scenarios could generate between \$48 and \$55 million and \$42 million and \$48 million respectively. Again, these figures are more conservative estimates of potential revenues available since they actively exclude approximately \$0.54 of the levy that would be available (at least through the next several years before they expire); conversely, if these eligible levies are included and those levies extend for the full 25-year time period, the revenue estimates would be approximately 15-20% higher than listed below.

Figure 15. Summary TIF Allocation Revenues

Discount @ 4.5%	Baseline	Reduced	Core
City	\$28,010,000	\$20,980,000	\$18,400,000
County/Port/Special Districts	\$45,130,000	\$33,870,000	\$29,730,000
<b>Total</b>	<b>\$73,140,000</b>	<b>\$54,850,000</b>	<b>\$48,130,000</b>

Discount @ 5.0%	Baseline	Reduced	Core
City	\$25,890,000	\$19,520,000	\$17,180,000
County/Port/Special Districts	\$41,700,000	\$31,500,000	\$27,730,000
<b>Total</b>	<b>\$67,590,000</b>	<b>\$51,020,000</b>	<b>\$44,910,000</b>

Discount @ 5.5%	Baseline	Reduced	Core
City	\$23,950,000	\$18,180,000	\$16,050,000
County/Port/Special Districts	\$38,600,000	\$29,370,000	\$25,920,000
<b>Total</b>	<b>\$62,550,000</b>	<b>\$47,550,000</b>	<b>\$41,970,000</b>

Source: ECONorthwest, 2023

The table in the figure below summarizes the 1) the property taxes that will remain in the affected taxing districts and 2) identifies the property tax allocation values that will flow to the TIF district. They are shown for:

- The City of Kirkland
- King County
- The Port of Seattle
- The Regional Transit Authority (RTA) – Sound Transit
- Emergency Medical District (EMS)
- King County Library District
- Hospital District
- Flood Control District

**Figure 15A: TIF Allocation Revenues to City and Other Taxing Jurisdictions – Reduced Scenario**

City of Kirkland													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Base Value	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
Increment Value	\$0	\$0	\$231,160,000	\$483,170,000	\$790,080,000	\$1,106,220,000	\$1,187,240,000	\$1,277,670,000	\$1,522,800,000	\$1,774,950,000	\$1,879,190,000	\$1,987,950,000	\$2,042,620,000
Levy Rate	\$1.06	\$1.05	\$1.03	\$1.01	\$1.00	\$0.98	\$0.96	\$0.95	\$0.93	\$0.92	\$0.90	\$0.89	\$0.87
Total Property Tax	\$140,000	\$140,000	\$370,000	\$620,000	\$920,000	\$1,210,000	\$1,270,000	\$1,330,000	\$1,540,000	\$1,750,000	\$1,810,000	\$1,880,000	\$1,900,000
Tax Allocated to TIF	\$0	\$0	\$240,000	\$490,000	\$790,000	\$1,080,000	\$1,140,000	\$1,210,000	\$1,420,000	\$1,630,000	\$1,700,000	\$1,760,000	\$1,780,000
Tax Allocated to City	\$140,000	\$140,000	\$130,000	\$130,000	\$130,000	\$130,000	\$130,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$110,000

All Other Districts													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Base Value	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
Increment Value	\$0	\$0	\$231,160,000	\$483,170,000	\$790,080,000	\$1,106,220,000	\$1,187,240,000	\$1,277,670,000	\$1,522,800,000	\$1,774,950,000	\$1,879,190,000	\$1,987,950,000	\$2,042,620,000
Levy Rate	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Property Tax	\$10,000	\$10,000	\$30,000	\$40,000	\$70,000	\$90,000	\$90,000	\$100,000	\$110,000	\$120,000	\$130,000	\$130,000	\$140,000
Tax Allocated to TIF	\$0	\$0	\$20,000	\$40,000	\$60,000	\$80,000	\$80,000	\$90,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Tax Allocated to Fire	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000

All Other Districts													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Base Value	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
Increment Value	\$2,098,790,000	\$2,262,970,000	\$2,521,530,000	\$2,662,620,000	\$2,872,820,000	\$3,038,350,000	\$3,121,910,000	\$3,207,760,000	\$3,295,970,000	\$3,386,610,000	\$3,479,740,000	\$3,575,430,000	\$3,673,760,000
Levy Rate	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Property Tax	\$3,130,000	\$3,300,000	\$3,540,000	\$3,660,000	\$3,870,000	\$4,020,000	\$4,050,000	\$4,090,000	\$4,130,000	\$4,170,000	\$4,210,000	\$4,240,000	\$4,280,000
Tax Allocated to TIF	\$2,940,000	\$3,120,000	\$3,360,000	\$3,490,000	\$3,700,000	\$3,850,000	\$3,890,000	\$3,930,000	\$3,970,000	\$4,010,000	\$4,050,000	\$4,090,000	\$4,140,000
Tax Allocated to Fire	\$180,000	\$180,000	\$170,000	\$170,000	\$170,000	\$170,000	\$160,000	\$160,000	\$160,000	\$150,000	\$150,000	\$150,000	\$150,000



**Figure 15B: TIF Allocation Revenues to City and Other Taxing Jurisdictions – Reduced Scenario**

City of Kirkland													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Base Value	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
Increment Value	\$0	\$0	\$231,160,000	\$483,170,000	\$790,080,000	\$1,106,220,000	\$1,187,240,000	\$1,277,670,000	\$1,522,800,000	\$1,774,950,000	\$1,879,190,000	\$1,987,950,000	\$2,042,620,000
Levy Rate	\$1.06	\$1.05	\$1.03	\$1.01	\$1.00	\$0.98	\$0.96	\$0.95	\$0.93	\$0.92	\$0.90	\$0.89	\$0.87
Total Property Tax	\$140,000	\$140,000	\$370,000	\$620,000	\$920,000	\$1,210,000	\$1,270,000	\$1,330,000	\$1,540,000	\$1,750,000	\$1,810,000	\$1,880,000	\$1,900,000
Tax Allocated to TIF	\$0	\$0	\$140,000	\$490,000	\$790,000	\$1,080,000	\$1,140,000	\$1,210,000	\$1,420,000	\$1,630,000	\$1,700,000	\$1,760,000	\$1,780,000
Tax Allocated to City	\$140,000	\$140,000	\$130,000	\$130,000	\$130,000	\$130,000	\$130,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000	\$110,000

King County													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Base Value	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
Increment Value	\$0	\$0	\$231,160,000	\$483,170,000	\$790,080,000	\$1,106,220,000	\$1,187,240,000	\$1,277,670,000	\$1,522,800,000	\$1,774,950,000	\$1,879,190,000	\$1,987,950,000	\$2,042,620,000
Levy Rate	\$0.66	\$0.63	\$0.62	\$0.61	\$0.60	\$0.59	\$0.58	\$0.57	\$0.56	\$0.55	\$0.54	\$0.53	\$0.52
Total Property Tax	\$90,000	\$80,000	\$220,000	\$370,000	\$550,000	\$720,000	\$760,000	\$800,000	\$920,000	\$1,040,000	\$1,080,000	\$1,120,000	\$1,130,000
Tax Allocated to TIF	\$0	\$0	\$140,000	\$290,000	\$470,000	\$650,000	\$680,000	\$720,000	\$850,000	\$970,000	\$1,010,000	\$1,050,000	\$1,060,000
Tax Allocated to Co/SpD	\$90,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000

Port													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Base Value	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
Increment Value	\$0	\$0	\$231,160,000	\$483,170,000	\$790,080,000	\$1,106,220,000	\$1,187,240,000	\$1,277,670,000	\$1,522,800,000	\$1,774,950,000	\$1,879,190,000	\$1,987,950,000	\$2,042,620,000
Levy Rate	\$0.06	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.04
Total Property Tax	\$10,000	\$10,000	\$20,000	\$30,000	\$40,000	\$60,000	\$70,000	\$70,000	\$80,000	\$90,000	\$90,000	\$100,000	\$100,000
Tax Allocated to TIF	\$0	\$0	\$10,000	\$30,000	\$40,000	\$60,000	\$60,000	\$60,000	\$70,000	\$80,000	\$90,000	\$90,000	\$90,000
Tax Allocated to Fire	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000

RTA													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Base Value	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
Increment Value	\$0	\$0	\$231,160,000	\$483,170,000	\$790,080,000	\$1,106,220,000	\$1,187,240,000	\$1,277,670,000	\$1,522,800,000	\$1,774,950,000	\$1,879,190,000	\$1,987,950,000	\$2,042,620,000
Levy Rate	\$0.38	\$0.17	\$0.17	\$0.17	\$0.16	\$0.16	\$0.16	\$0.16	\$0.15	\$0.15	\$0.15	\$0.15	\$0.14
Total Property Tax	\$20,000	\$20,000	\$60,000	\$100,000	\$150,000	\$200,000	\$210,000	\$220,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000
Tax Allocated to TIF	\$0	\$0	\$40,000	\$80,000	\$130,000	\$180,000	\$190,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
Tax Allocated to Fire	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000

2049													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Base Value	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
Increment Value	\$2,098,790,000	\$2,262,970,000	\$2,521,530,000	\$2,662,620,000	\$2,872,820,000	\$3,038,350,000	\$3,121,910,000	\$3,207,760,000	\$3,295,970,000	\$3,386,610,000	\$3,479,740,000	\$3,575,430,000	\$3,673,760,000
Levy Rate	\$0.51	\$0.49	\$0.49	\$0.48	\$0.47	\$0.46	\$0.45	\$0.45	\$0.44	\$0.43	\$0.42	\$0.42	\$0.41
Total Property Tax	\$1,140,000	\$1,270,000	\$1,290,000	\$1,340,000	\$1,410,000	\$1,460,000	\$1,480,000	\$1,490,000	\$1,510,000	\$1,520,000	\$1,530,000	\$1,550,000	\$1,560,000
Tax Allocated to TIF	\$1,070,000	\$1,200,000	\$1,230,000	\$1,270,000	\$1,350,000	\$1,400,000	\$1,420,000	\$1,430,000	\$1,450,000	\$1,460,000	\$1,480,000	\$1,490,000	\$1,510,000
Tax Allocated to Co/SpD	\$70,000	\$70,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$50,000	\$50,000

**Figure 15B: TIF Allocation Revenues to City and Other Taxing Jurisdictions – Reduced Scenario Continued**

EMS	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
<b>Base Value</b>	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
<b>Increment Value</b>	\$0	\$0	\$233,116,000	\$483,170,000	\$790,080,000	\$1,106,220,000	\$1,187,240,000	\$1,277,670,000	\$1,522,800,000	\$1,774,950,000	\$1,879,190,000	\$1,987,950,000	\$2,042,620,000
<b>Levy Rate</b>	\$0.24	\$0.23	\$0.23	\$0.22	\$0.22	\$0.22	\$0.21	\$0.21	\$0.16	\$0.20	\$0.20	\$0.20	\$0.19
<b>Total Property Tax</b>	\$30,000	\$30,000	\$80,000	\$140,000	\$200,000	\$270,000	\$280,000	\$300,000	\$340,000	\$390,000	\$400,000	\$420,000	\$420,000
<b>Tax Allocated to TIF</b>	\$0	\$0	\$50,000	\$110,000	\$170,000	\$240,000	\$250,000	\$270,000	\$310,000	\$360,000	\$360,000	\$390,000	\$390,000
<b>Tax Allocated to Fire</b>	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
<b>Hospital</b>													
<b>Base Value</b>	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
<b>Increment Value</b>	\$0	\$0	\$233,116,000	\$483,170,000	\$790,080,000	\$1,106,220,000	\$1,187,240,000	\$1,277,670,000	\$1,522,800,000	\$1,774,950,000	\$1,879,190,000	\$1,987,950,000	\$2,042,620,000
<b>Levy Rate</b>	\$0.24	\$0.23	\$0.23	\$0.22	\$0.22	\$0.22	\$0.21	\$0.21	\$0.16	\$0.20	\$0.20	\$0.20	\$0.19
<b>Total Property Tax</b>	\$30,000	\$30,000	\$80,000	\$140,000	\$200,000	\$270,000	\$280,000	\$300,000	\$340,000	\$390,000	\$400,000	\$420,000	\$420,000
<b>Tax Allocated to TIF</b>	\$0	\$0	\$50,000	\$110,000	\$170,000	\$240,000	\$250,000	\$270,000	\$310,000	\$360,000	\$360,000	\$390,000	\$390,000
<b>Tax Allocated to Fire</b>	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
<b>Library</b>													
<b>Base Value</b>	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
<b>Increment Value</b>	\$0	\$0	\$233,116,000	\$483,170,000	\$790,080,000	\$1,106,220,000	\$1,187,240,000	\$1,277,670,000	\$1,522,800,000	\$1,774,950,000	\$1,879,190,000	\$1,987,950,000	\$2,042,620,000
<b>Levy Rate</b>	\$0.31	\$0.31	\$0.30	\$0.30	\$0.29	\$0.29	\$0.28	\$0.28	\$0.27	\$0.27	\$0.26	\$0.26	\$0.25
<b>Total Property Tax</b>	\$40,000	\$40,000	\$110,000	\$180,000	\$270,000	\$350,000	\$370,000	\$390,000	\$450,000	\$510,000	\$530,000	\$550,000	\$550,000
<b>Tax Allocated to TIF</b>	\$0	\$0	\$70,000	\$140,000	\$230,000	\$320,000	\$330,000	\$350,000	\$410,000	\$480,000	\$490,000	\$510,000	\$520,000
<b>Tax Allocated to Fire</b>	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$50,000	\$30,000	\$30,000
<b>Flood Control</b>													
<b>Base Value</b>	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000	\$130,750,000
<b>Increment Value</b>	\$0	\$0	\$233,116,000	\$483,170,000	\$790,080,000	\$1,106,220,000	\$1,187,240,000	\$1,277,670,000	\$1,522,800,000	\$1,774,950,000	\$1,879,190,000	\$1,987,950,000	\$2,042,620,000
<b>Levy Rate</b>	\$0.08	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.06	\$0.06	\$0.06
<b>Total Property Tax</b>	\$10,000	\$10,000	\$30,000	\$40,000	\$60,000	\$80,000	\$90,000	\$100,000	\$110,000	\$120,000	\$130,000	\$130,000	\$140,000
<b>Tax Allocated to TIF</b>	\$0	\$0	\$20,000	\$40,000	\$60,000	\$80,000	\$80,000	\$90,000	\$100,000	\$120,000	\$120,000	\$130,000	\$130,000
<b>Tax Allocated to Fire</b>	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000

## Debt Service Payments and Coverage

Assuming the City issues \$18 million of debt in early 2025 and \$40 million of debt in early 2028 to fund the proposed infrastructure projects, it will need to service that debt with available resources regardless of whether the anticipated private development occurs and regardless of whether assessed values increase within the TIA. However, given the nature of TIF, incremental revenues early in the TIF period may not be sufficient to service the debt as private development construction will be in progress, and it will take time to build incremental assessed values contributions that ultimately determine the TIF allocation revenues estimated in this report.

Figure 16 summarizes potential debt service payments (assuming equal debt service) relative to the different TIF tax allocation revenue scenarios that would flow to the City. Until private development (and more specifically increases in assessed valuation in the TIA) catches up and matches the City's debt service payment, the City will need to cover these early deficits by using revenues identified in this Project Analysis (see Additional Incremental Tax and Impact Assessment and Mitigation Sections below) or structure their debt payments in line with their revenue stream (such as interest only or capitalized interest).

**Figure 16: Summary Equal Debt Payments and TIF Revenue Allocations**

TIF Allocation Revenues													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Baseline													
TIF Revenues	\$0	\$0	\$624,000	\$1,282,000	\$2,062,000	\$2,839,000	\$2,996,000	\$3,171,000	\$3,739,000	\$4,305,000	\$4,612,000	\$4,925,000	\$4,977,000
TIF Debt Service	\$0	\$0	\$1,384,000	\$1,384,000	\$1,384,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000
Annual Surplus/Deficit	\$0	\$0	(\$760,000)	(\$102,000)	\$678,000	(\$1,620,000)	(\$1,463,000)	(\$1,288,000)	(\$720,000)	(\$154,000)	\$153,000	\$466,000	\$518,000
Cumulative Surplus/Deficit	\$0	\$0	(\$760,000)	(\$862,000)	(\$184,000)	(\$1,804,000)	(\$3,267,000)	(\$4,555,000)	(\$5,275,000)	(\$5,429,000)	(\$5,276,000)	(\$4,810,000)	(\$4,292,000)

TIF Allocation Revenues													
Tax Year	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Baseline													
TIF Revenues	\$5,029,000	\$5,552,000	\$6,658,000	\$8,240,000	\$9,490,000	\$10,157,000	\$10,616,000	\$10,728,000	\$10,841,000	\$10,955,000	\$11,071,000	\$11,187,000	\$11,304,000
TIF Debt Service	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$0
Annual Surplus/Deficit	\$570,000	\$1,093,000	\$2,199,000	\$3,781,000	\$5,031,000	\$5,698,000	\$6,157,000	\$6,269,000	\$6,382,000	\$7,880,000	\$7,996,000	\$8,112,000	\$11,304,000
Cumulative Surplus/Deficit	(\$3,722,000)	(\$2,629,000)	(\$430,000)	\$3,351,000	\$8,382,000	\$14,080,000	\$20,237,000	\$26,506,000	\$32,888,000	\$40,768,000	\$48,764,000	\$56,876,000	\$68,180,000

TIF Allocation Revenues													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Reduced													
TIF Revenues	\$0	\$0	\$624,000	\$1,282,000	\$2,062,000	\$2,839,000	\$2,996,000	\$3,171,000	\$3,717,000	\$4,261,000	\$4,436,000	\$4,615,000	\$4,664,000
TIF Debt Service	\$0	\$0	\$1,384,000	\$1,384,000	\$1,384,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000
Surplus/Deficit	\$0	\$0	(\$760,000)	(\$102,000)	\$678,000	(\$1,620,000)	(\$1,463,000)	(\$1,288,000)	(\$742,000)	(\$198,000)	(\$23,000)	\$156,000	\$205,000
Cumulative Surplus/Deficit	\$0	\$0	(\$760,000)	(\$862,000)	(\$184,000)	(\$1,804,000)	(\$3,267,000)	(\$4,555,000)	(\$5,297,000)	(\$5,495,000)	(\$5,518,000)	(\$5,362,000)	(\$5,157,000)

TIF Allocation Revenues													
Tax Year	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Reduced													
TIF Revenues	\$4,712,000	\$4,997,000	\$5,287,000	\$5,384,000	\$5,591,000	\$5,933,000	\$6,170,000	\$6,235,000	\$6,300,000	\$6,365,000	\$6,432,000	\$6,499,000	\$6,566,000
TIF Debt Service	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$0
Annual Surplus/Deficit	\$253,000	\$538,000	\$828,000	\$925,000	\$1,132,000	\$1,474,000	\$1,711,000	\$1,776,000	\$1,841,000	\$3,290,000	\$3,357,000	\$3,424,000	\$6,566,000
Cumulative Surplus/Deficit	(\$4,904,000)	(\$4,366,000)	(\$3,538,000)	(\$2,613,000)	(\$1,481,000)	(\$7,000)	\$1,704,000	\$3,480,000	\$5,321,000	\$8,611,000	\$11,968,000	\$15,392,000	\$21,958,000

TIF Allocation Revenues													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Core													
TIF Revenues	\$0	\$0	\$624,000	\$1,282,000	\$2,062,000	\$2,839,000	\$2,996,000	\$3,171,000	\$3,695,000	\$4,216,000	\$4,260,000	\$4,305,000	\$4,350,000
TIF Debt Service	\$0	\$0	\$1,384,000	\$1,384,000	\$1,384,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000
Surplus/Deficit	\$0	\$0	(\$760,000)	(\$102,000)	\$678,000	(\$1,620,000)	(\$1,463,000)	(\$1,288,000)	(\$764,000)	(\$243,000)	(\$199,000)	(\$154,000)	(\$109,000)
Cumulative Surplus/Deficit	\$0	\$0	(\$760,000)	(\$862,000)	(\$184,000)	(\$1,804,000)	(\$3,267,000)	(\$4,555,000)	(\$5,319,000)	(\$5,562,000)	(\$5,761,000)	(\$5,915,000)	(\$6,024,000)

TIF Allocation Revenues													
Tax Year	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Core													
TIF Revenues	\$4,395,000	\$4,441,000	\$4,488,000	\$4,534,000	\$4,581,000	\$4,629,000	\$4,677,000	\$4,726,000	\$4,775,000	\$4,824,000	\$4,874,000	\$4,925,000	\$4,976,000
TIF Debt Service	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$0
Annual Surplus/Deficit	(\$64,000)	(\$18,000)	\$29,000	\$75,000	\$122,000	\$170,000	\$218,000	\$267,000	\$316,000	\$316,000	\$1,799,000	\$1,850,000	\$4,976,000
Cumulative Surplus/Deficit	(\$6,088,000)	(\$6,106,000)	(\$6,077,000)	(\$6,002,000)	(\$5,880,000)	(\$5,710,000)	(\$5,492,000)	(\$5,225,000)	(\$4,909,000)	(\$4,560,000)	(\$3,361,000)	(\$489,000)	\$5,465,000

# Jobs Analysis

The job analysis considers two sources of employment tied to the Station Area. First, the construction of the development program will create jobs in the construction industry. These jobs will occur during the construction and are therefore “one-time” events. In contrast, once the buildings are constructed, commercial-oriented buildings will be occupied by firms and workers engaged in different sectors of the economy. These jobs are “on-going”, meaning they are permanent on the condition of occupation within the TIA. The following sections summarize these job estimates, and the methods used to derive them.

## Construction Employment

Construction of the development over the anticipated build-out period would create temporary construction jobs within the region and state. The jobs estimated in Figure 15 are derived by using the 2022 value of construction investment for the Development Program Scenarios (Baseline, Reduced, and Core) and interpolating them into the Washington State Office of Financial Management’s Input/Output model. The model relates spending in an industry sector to the number of jobs that would be directly supported by that same investment. While the model estimates the number of jobs generated in the state of Washington, it is likely that most of these workers would come from the immediate Puget Sound region. The region is rapidly growing in population, meaning many of these jobs would be additive to existing jobs within the region. Ultimately, the income earned by workers would bring additional spending to the City that would not have otherwise occurred. ECONorthwest estimates the total number of construction jobs based on the spending by scenario. The number of jobs at any given time would vary depending on how development buildings are phased and developed. As expected, the scale of the investment in the Baseline scenario produces the largest amount of construction jobs, in this case, 9,550 construction jobs.

Figure 17: Construction Jobs

	<b>Baseline</b>	<b>Reduced</b>	<b>Core</b>
<b>Construction Jobs</b>	9,550	5,880	4,450
<b>Investment (millions)</b>	\$2,702	\$1,663	\$1,258

Source: ECONorthwest calculations and Office of Financial Management Input/Output Model, 2022.

## On-going Employment

Based on the types of uses and square feet of building area, ECONorthwest estimated the potential number of jobs the development would support when built. These numbers are derived from ratio estimates building area to number of employees. The U.S. Energy Information Administration releases data from the 2018 Commercial Buildings Energy Consumption Survey (CBECS) that provides building characteristics information for commercial buildings in 2018 in the U.S. (the latest year of data). The data contain the average building square foot per worker by building use. Using the amount of planned development square footage by building use at full buildout of the scenarios, these ratios can be applied (less a vacancy rate of 5 percent) to estimate the number of on-going jobs. The Baseline scenario, by measure of having more commercial space than either of the other scenarios has the largest number of on-going jobs at 9,690.

Figure 18: On-going Jobs

Employment Uses	Jobs: Baseline	Jobs: Reduced	Jobs: Core	Mean SqFt/Work
Office	9,390	4,970	4,300	508
Retail and Food & Beverag	260	190	140	1,589
Services	40	40	40	1,265
<b>Total Jobs</b>	<b>9,690</b>	<b>5,200</b>	<b>4,480</b>	

Source: 2018 CBECS, Table B1. Summary table: total and means of floorspace, number of workers, and hours of operation, 2018 (Release date: September 2021)

## Impact Assessment and Mitigation

Affordable Housing: Providing housing choices across a range of housing types, incomes, and needs has been identified as a priority throughout the Station Area planning process. This analysis looked at opportunities to generate funds to support affordable housing beyond the City’s existing affordable housing regulations (such as inclusionary zoning) as well as market-rate housing production, and other ways to address the current jobs/housing imbalance in the Station Area. The Station Area will provide additional multi-family housing options as part its development program.

No residential housing will be displaced from the development. It is expected that as additional housing is built, demand is lowered and housing costs are reduced over the long-term and become more affordable. The increased number of units stemming from this development will help house the growing population base, meeting the demand with supply. Without additional housing in Kirkland and the eastside, affordability will only become increasingly challenging. Additionally, the City has partnered with a Regional Coalition for Housing (ARCH) to ensure affordability levels for units that the market cannot support.

Local Business Community: In addition to the new residents, between 4,480 and 9,690 on-going jobs will be introduced depending on which Development scenario occurs. Likewise, between 4,450 and 9,550 construction jobs will be introduced based on private investment for the vertical development that would be between \$1.25 billion to \$2.70 billion based on the specific Development Program growth scenario. These new jobs supported by significant private investment will benefit other businesses in the City of Kirkland as well as the King County area.

Local School Districts: The Lake Washington School District’s property tax levies are excluded from the TIF under the law. The increased assessed values generated in the TIA will operate to lower the rate per thousand of assessed value of levies imposed by the district. School district Enrichment and Capital Levies are excess levies, and the districts periodically ask voters to maintain existing levels of purchasing power via voted ballots. Bond levies ask voters to approve bonds to expand or improve their facilities and to approve excess property tax levies as necessary to pay debt service on the bonds. The effect of growth in the tax base coming from TIF will have two implications. First, it increases the tax base of the district, meaning that lower overall tax rates (per thousand of AV) are needed to fund a similar level of service. Second, it increases the proportion of the tax base that is commercial which leverages the relative voting power of residential households to support school expenditures backed by these excess levies (voter approved or otherwise). The City also collects impact fees on behalf of the Lake Washington School District to accommodate student growth associated with new development.

Local Fire Service: State law requires a mitigation plan if the TIA will impact at least 20 percent of the assessed value of an impacted fire district. Local fire service is provided by the City of Kirkland and therefore there is no impact to another taxing district. Additionally, the total assessed value of the City of Kirkland is \$36,947,748,933 along with a Fire Department Budget of \$28,489,778, resulting in only a .0008 percent impact on local fire service. Increased revenues from the Station Area Development are expected to be sufficient, to provide at a minimum, the City’s existing levels of services to the area.

**Financing Plan/Duration of TIA**

The City anticipates issuing Limited Term General Obligation (LTGO non-voted debt) tax-exempt bonds to pay for the TIF infrastructure projects in the amount not to exceed \$58 million. The City anticipates issuing \$18 million in debt in 2024 and \$40 million in 2026 to coincide with the public infrastructure and private development timelines.

The City plans to structure the LTGO bonds with a 20-year amortization and a 10-year par call. Additionally, the City is not currently expecting to capitalize interest during the first three years of the financing when TIF revenues alone are not expected to be sufficient to cover debt service. Instead, the City plans to pay any difference between debt service and TIF revenues from non-TIF City revenues. The City will reimburse itself for any feasibility studies, including engineering design work to accurately project costs that occurred prior to the expected adoption of the Ordinance designating a TIA in the Spring of 2023. The City also plans to reimburse itself for any non-TIF revenue sources that are needed to meet the City’s debt service payments associated with the TIF Infrastructure.

**Debt Capacity**

The maximum limit for LTGO non-voted debt cannot exceed 1.5 percent of the value of taxable property within the City. Based on an assessed value of \$36,947,748,933 in 2022, the City has \$554,216,234 million in total non-voted debt capacity. As shown below, the City has sufficient capacity for the issuance of the proposed \$58 million LTGO bonds related to the TIF public improvements and is expected to have more than \$434 million, or 78.5 percent of its debt capacity available after the proposed issuance.

Figure 19: Debt Capacity

2021 Assessed Valuation for 2022 Collections	36,947,748,933
Non-Voted Debt Capacity (1.5% of AV)	554,216,234
<i>Less:</i> Outstanding Non-Voted Debt	(61,340,000)
Voted Debt Capacity	368,927,489
Non-Voted Debt Capacity	492,876,234
<i>Less:</i> Financing Proposed	58,000,000
<b>Projected Remaining Non-Voted Capacity</b>	<b>434,876,234</b>
<b>Projected Remaining Non-Voted Capacity %</b>	<b>78.5%</b>

Source: City of Kirkland, September 2023.



The estimated terms of indebtedness, including principal amount of \$18 million to be issued in 2025 and \$40 million in 2028 for the TIF infrastructure improvements, interest rate and maturity schedule are shown in Figure 20 below. For the purposes of this analysis, all debt is assumed to be tax exempt. The debt schedule shown below approximates a true interest cost of 4.5% assuming level debt payments to estimate the amount that would have to be covered if the debt is issued.

**Figure 20: Debt Service Schedule**

<b>Year</b>	<b>Issue 1</b>	<b>Issue 2</b>	<b>Combined Debt</b>
2023			
2024			
2025	\$1,383,771		\$1,383,771
2026	\$1,383,771		\$1,383,771
2027	\$1,383,771		\$1,383,771
2028	\$1,383,771	\$3,075,046	\$4,458,816
2029	\$1,383,771	\$3,075,046	\$4,458,816
2030	\$1,383,771	\$3,075,046	\$4,458,816
2031	\$1,383,771	\$3,075,046	\$4,458,816
2032	\$1,383,771	\$3,075,046	\$4,458,816
2033	\$1,383,771	\$3,075,046	\$4,458,816
2034	\$1,383,771	\$3,075,046	\$4,458,816
2035	\$1,383,771	\$3,075,046	\$4,458,816
2036	\$1,383,771	\$3,075,046	\$4,458,816
2037	\$1,383,771	\$3,075,046	\$4,458,816
2038	\$1,383,771	\$3,075,046	\$4,458,816
2039	\$1,383,771	\$3,075,046	\$4,458,816
2040	\$1,383,771	\$3,075,046	\$4,458,816
2041	\$1,383,771	\$3,075,046	\$4,458,816
2042	\$1,383,771	\$3,075,046	\$4,458,816
2043	\$1,383,771	\$3,075,046	\$4,458,816
2044	\$1,383,771	\$3,075,046	\$4,458,816
2045		\$3,075,046	\$3,075,046
2046		\$3,075,046	\$3,075,046
2047		\$3,075,046	\$3,075,046

Source: ECONorthwest calculations

### Early Outreach to Impacted Taxing Districts

While Washington State law requires formal notice to be provided to the King County Council, King County Treasurer, King County Assessor, and impacted taxing districts upon approval of the Tax Increment Area (TIA), the City of Kirkland has engaged the King County Treasurer and Assessor earlier in the process. This early outreach has allowed the City to collect feedback focused on the logistics of implementing TIF.

The taxing districts whose property tax levy would be directly impacted by TIF include:

- The City of Kirkland
- King County



- The Port of Seattle
- The Regional Transit Authority (RTA) – Sound Transit
- Emergency Medical District (EMS)
- King County Library District
- Hospital District
- Flood Control District

The levy rate from each of these jurisdictions will be applied to the increased assessed valuation within the TIA and remitted to the City to pay the bonds associated with constructing the public infrastructure to support the anticipated private development. Alternatively, if TIF revenues exceed the amount necessary to pay the bonds then excess revenues will be distributed to these taxing districts.

Additionally, the City has participated in meetings with the Department of Revenue to ensure that the TIA analysis provided herein utilizes assumptions consistent with the Department’s interpretation of state law.

The City intends to provide the formal notice once the City Council approves the ordinance establishing the TIA.

## **But-For Requirement**

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

- (i) The public improvements proposed to be paid or financed with tax allocation revenues are expected to encourage private development within the increment area and to increase the assessed value of real property within the increment area;
- (ii) Private development that is anticipated to occur within the increment area as a result of the proposed public improvements will be permitted consistent with the permitting jurisdiction's applicable zoning and development standards;
- (iii) The private development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future without the proposed public improvements; and,
- (iv) The increased assessed value within the increment area that could reasonably be expected to occur without the proposed public improvements would be less than the increase in the assessed value estimated to result from the proposed development with the proposed public improvements.

These findings (specifically sections i, ii, and iv) are commonly referred to as the “But-For-Requirement”. The name comes from the assertion that private development would not occur but-for the use of TIF. This requirement is a foundational element of TIF which directs public tax dollars generated by the development to only those public improvement projects necessary to support the proposed development. In the case of the Station Area, the October 2021 Fiscal Impact and Community Benefits (FICB) Analysis clearly showed incremental infrastructure needs to

serve the redevelopment area that would not be built by developers and recommended the consideration of TIF funding to help meet those needs.

Although TIF is new to Washington State governments, the But-For-Requirement and associated analysis is not. Many local governments that have invested in infrastructure as part of economic development projects have examined the public agency's return on its infrastructure investment from the generation of on-going tax revenues associated with new development. Additionally, for most local governments, infrastructure demand exceeds revenue capacity, forcing local governments to make priority decisions regarding infrastructure projects that get funded with tax dollars and determining which projects can be paid for by developers. The But-For-Requirement for TIF formalizes the analysis and requires the local government sponsoring TIF to provide convincing evidence showing that tax dollars from the TIA are necessary to make the development possible.

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

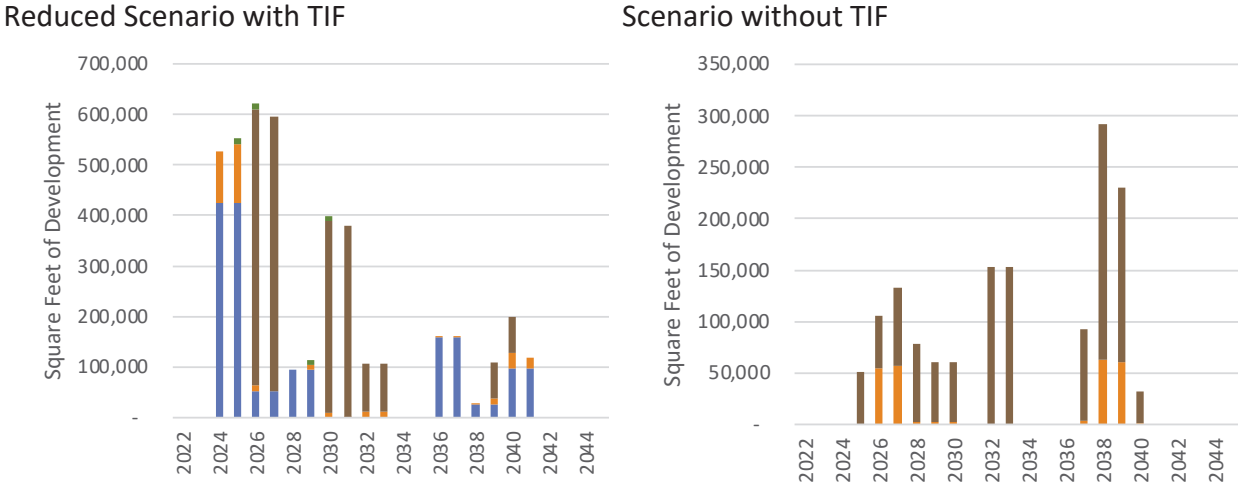
The Station Area FICB analysis showed that some types of development could potentially accommodate public benefit contributions as part of an incentive zoning program (i.e., affordable housing, parks and open space, mobility, etc. above baseline infrastructure requirements) while other lower density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

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

### **Expected Development Without TIF Improvements**

The City of Kirkland studied the expected development within the TIF area as part of the regulatory and investment scheme in its 85<sup>th</sup> St Station Area Plan EIS. In an environment without the necessary investments, the TIF area is expected to accommodate less development. The figure below compares how much development might be anticipated in the area with TIF (Reduced Scenario) and without TIF. Without the Station Area Plan regulatory and TIF investments, the area accommodates a significant amount less development.

**Figure 21: Comparison of Land Development Between TIF Scenarios and No TIF**



The figure below compares the amount of assessed valuation growth in both conditions.

**Figure 22: Comparison of Assessed Value Growth Between TIF Reduced Scenarios and No TIF**

Assessment Year	2023	2028	2033	2038	2043	2048
Reduced	\$0	\$1,187,242,000	\$1,987,953,000	\$2,521,532,000	\$3,207,758,000	\$3,673,759,000
No TIF	\$0	\$159,977,000	\$415,061,000	\$709,104,000	\$991,760,000	\$1,135,836,000

Source: ECONorthwest calculations, 2022

**Summary of “But-For-Requirement”**

Based on the above analysis and work performed as part of the Station Area Plan, the proposed private development and land use density could not occur without the identified TIF infrastructure improvements. Additionally, the assessed values from projected private development within the Station Area Development would be less than the increase in assessed values from private development with the TIF improvements.

**Additional Incremental Taxes**

The City’s LTGO bonds will be backed the City’s full faith and credit, meaning bond holders can make a legal claim against the general revenue of the City if a default occurs. However, the City can use any unrestricted revenue sources it has available to satisfy its debt obligations. Washington state tax policy has conditions that allow governments that grow their tax bases to collect additional revenues. This relationship creates a mutually reinforcing benefit of housing and commercial development with additional tax revenues. New land development represents a direct financial investment in land preparation and building structures. Those structures are then occupied by residential neighborhoods and businesses that increase the lands' productive economic capacity. That economic value generates taxable bases at the land, business operation, and transaction levels, represented in land value, retail sales, business income, etc. State tax policy allows government jurisdictions to tax these bases (subject to rate, annual increase and other limitations) to fund needed public services and infrastructure.

Outside of the TIF allocations and the base value of property tax that would flow to TIF jurisdictions, the development and occupation of buildings in the Station Area Development will

generate other incremental taxes to those jurisdictions. Tax revenues can be differentiated into three categories:

- **One-time Revenues.** These revenues are tied to construction. Specifically, they include the retail sales tax on construction (materials and labor), which is taxable under Washington state law.
- **Recurring Revenues.** These revenues are derived from the occupation of structures by residents and businesses. Specific revenues include retail sales tax, and utility taxes.
- **Capital Restricted Revenues.** These revenues are restricted to capital and include real estate excise taxes.

## City of Kirkland

The City of Kirkland is the local service provider for police, fire, public works, community development, parks, and other local services. To support these services, the City collects a range of general and restricted taxes, these include the following.

### *Sales & Use Taxes*

**Sales Tax.** Of the 10.2% sales tax currently collected in the City on general retail purchases, a 1% "local" share of the tax accrues to local jurisdictions. The City receives 85% of the 1% local tax and King County gets 15%. This tax is levied on businesses in the area, and also on construction activity and some transactions related to housing and business, such as certain online purchases and the delivery of personal and commercial goods. The current rate accruing to the City is 0.85%. The sales tax relies on estimates of new construction value and consumer taxable retail sales spending.

- The City also levies a 0.1% Public Safety sales tax. The revenue must be shared with the County for this tax (the City receives 85% of this increment as well with the County receiving 15%).
- The City also receives a population pro rata share of 90% of the city allocation of King County's 0.1% criminal justice sales tax. Increase in the criminal justice tax is modeled on net increases in population due to development.
- In the 2019 legislative session, the state approved a local revenue sharing program for local governments by providing a 0.0146% local sales and use tax credited against the state sales tax for housing investments. The city's rate is 0.0073% due to the county also using this tax. This tax is not estimated at this time.

### *Business License Tax*

The City collects an annual business license tax. The fee is a base rate plus a "per employee fee." Kirkland does not impose a Business and Occupation (B&O) tax on gross receipts. The license tax is calculated by estimating the amount of employment by industry sector within occupied buildings and applying the appropriate tax rate.

### *Utility Taxes*

The City imposes utility taxes on gross purchases of electricity, water, wastewater, solid waste, telephones, cable, and natural gas. Current tax rates are used for this analysis. A generalized utility

expenditure productivity factor (on a per person and employee basis) was used to generate estimates of utility purchases.

- Water: 13.38%
- Wastewater: 10.5%
- Electric: 6%
- Natural Gas: 6%
- Solid Waste: 10.5%
- Cable/Internet: 6%
- Telephone/Mobile: 6%
- Stormwater: 7.5%

### *State Shared Motor Vehicle Fuel Tax & Liquor Board/Taxes*

Local governments receive a gas tax distribution that is unrestricted for street purposes from the State. The distribution is determined using a formula that is heavily weighted towards population. ECONorthwest used a proxy of this formula to derive these revenues to the City. Cities also receive pro rata payments from Liquor Excise Tax & Liquor Board Profits.

### *Real Estate Excise Tax (REET)*

Real estate transactions are subject to a 0.5 percent tax on the value of the transaction. REET revenues are placed in the capital restricted funds to finance capital projects. REET revenues are uncertain given volatility in the real estate market. Since REET is based on the total value of real estate transactions in a given year, the amount of REET revenues the City receives can vary substantially from year to year based on the normal fluctuations in the real estate market. During years when the real estate market is active, revenues are higher, and during softer real estate markets, revenues are lower. For the purposes of this analysis, it is assumed that all new completed projects would be sold and then 5 percent of all property value would turn over (re-sold) in any given year.

### **Tax Base Productivity Assumptions**

It is assumed that each housing unit will house on average 1.85 persons and that the development will be 90 percent occupied (to account for times when homes sit vacant). Construction costs represent the average per square foot cost for different building types based on recent construction comparable projects (note: these construction costs are different from what a market value a project is assessed at for property tax purposes).

These below costs are subject to retail sales taxes:

- Flex: \$250 per square foot
- Commercial: \$300 per square foot
- Office: \$350 per square foot
- Multi-family Unit: \$400,000 per unit

Taxable retail sales are based on assumed comparable businesses:

- Flex: \$100 per square foot
- Commercial: \$350.00 per square foot



- Office: \$10.00 per square foot
- Multi-family Unit: \$2,500 per unit

### **Summary of Additional Tax Results**

Based on the approximate timing of the new development the Reduced Scenario is estimated to generate approximately \$68.4 million in additional tax revenues generated from the private development for the City (Figure 23). The Core Scenario generates respectively less at \$57.3 million. These figures represent a 25-year cash flow (2023-2047 tax assessment years) of tax revenues to the to the City in 2022 dollars (e.g., all future tax revenues have been discounted at 4.5% back to 2022 values). The Baseline will likely have respectively more given the full buildout of the area (amount not estimated).

**Figure 23: Summary of additional tax benefits (present value, 2022\$)**

<b>Revenues</b>	<b>Reduced</b>	<b>Core</b>
Sales Taxes	\$43,850,000	\$37,070,000
Utility Taxes	\$15,310,000	\$12,660,000
Business Licenses	\$8,570,000	\$7,070,000
State Shared	\$650,000	\$530,000
<b>Total</b>	<b>\$68,370,000</b>	<b>\$57,330,000</b>

Source: ECONorthwest calculations, 2022

### **Risk Assessment and Mitigation Plan**

TIF is a powerful tool available to local governments for encouraging development. Using local property tax revenues to finance certain public improvements can encourage and generate the desired or envisioned private development; however, using TIF has risks. The largest risks are that: 1) the expected private development does not occur; occurs slower than expected; and/or, the type of private vertical (office, retail, housing) development and its magnitude is less than expected; and, 2) the cost projected for the infrastructure improvements is higher than projected. These risks impact the expected revenues to be generated within the TIA or the costs for the identified public infrastructure improvements. If risks are not mitigated, a local government must then use other sources of revenue to pay for the public improvements. The City will be obligated to pay for the TIF infrastructure even if little or no private development materializes. As stated previously in this report, the City anticipates issuing LTGO bonds which will be backed by the City’s full faith and credit, meaning bond holders can make a legal claim against the general revenue of the City if a default occurs.

Other related risks include over-investment of infrastructure funding by TIF which can waste limited tax dollars for other uses. Local governments can guard against and potentially avoid the over-investing and under-investing by carefully evaluating the local market conditions and performing the analysis associated with the But-For-Requirement identified in this report. When TIF is used correctly, the growth and development pay for the infrastructure investments that encouraged it.

For purposes of this Project Analysis, the City has identified the Reduced Development Program as the likely scenario that will occur. Based on the Reduced Development Program, the TIA is projected to generate approximately \$54.9 million (25-year present value) in additional tax revenue over a 25-year TIF period (2023-2048). While this value does not exceed the projected

infrastructure cost of \$58 million (20-year present value), the timing of the cash flows from TIA relative to the debt will be covered over the 25-year TIF funding period. Similarly, the Core Scenario has tax allocations at \$48.1 million (25-year present value), below the \$58 million (20-year present value), infrastructure level but same will have positive cash flows at the end of the TIF period.

The City will need to fill the financial gap (e.g., the difference between TIF allocation revenues and debt payments) that is projected to occur in the first 9 years for a total gap of \$5.5 million in the Reduced Scenario with other sources of revenue that are identified below. This amount can then be repaid back from increased TIF revenues after the proposed private development stabilizes in later years or from additional local taxes coming from the development. Notwithstanding these projections, the City has prepared the mitigation plan below to respond to possible development and financial risks.

Figure 24: Reduced Development Program

TIF Allocation Revenues	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
TIF Revenues	\$0	\$0	\$624,000	\$1,282,000	\$2,062,000	\$2,839,000	\$2,996,000	\$3,171,000	\$3,717,000	\$4,261,000	\$4,436,000	\$4,615,000	\$4,664,000
TIF Debt Service	\$0	\$0	\$1,384,000	\$1,384,000	\$1,384,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000
Annual Surplus/Deficit	\$0	\$0	(\$760,000)	(\$102,000)	\$678,000	(\$1,620,000)	(\$1,463,000)	(\$1,288,000)	(\$742,000)	(\$198,000)	(\$23,000)	\$156,000	\$205,000
Cumulative Surplus/Deficit	\$0	\$0	(\$760,000)	(\$862,000)	(\$184,000)	(\$1,804,000)	(\$3,267,000)	(\$4,555,000)	(\$5,297,000)	(\$5,495,000)	(\$5,518,000)	(\$5,362,000)	(\$5,157,000)

TIF Allocation Revenues	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
TIF Revenues	\$4,712,000	\$4,997,000	\$5,287,000	\$5,384,000	\$5,591,000	\$5,933,000	\$6,170,000	\$6,235,000	\$6,300,000	\$6,365,000	\$6,432,000	\$6,499,000	\$6,566,000
TIF Debt Service	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$4,459,000	\$3,075,000	\$3,075,000	\$3,075,000	\$0
Annual Surplus/Deficit	\$253,000	\$538,000	\$828,000	\$925,000	\$1,132,000	\$1,474,000	\$1,711,000	\$1,776,000	\$1,841,000	\$3,290,000	\$3,357,000	\$3,424,000	\$6,566,000
Cumulative Surplus/Deficit	(\$4,904,000)	(\$4,366,000)	(\$3,538,000)	(\$2,613,000)	(\$1,481,000)	(\$7,000)	\$1,704,000	\$3,480,000	\$5,321,000	\$8,611,000	\$11,968,000	\$15,392,000	\$21,958,000

Source: ECONorthwest Calculations, 2023

**Development Mitigation**

Development Program Sensitivity Analysis: Three different private development program scenarios (Baseline, Reduced, and Core) have been developed and evaluated to identify potential TIF revenues and sufficient mitigation measures should development not occur (worst case) or occur at a different speed and magnitude.

Development Agreement: The City of Kirkland will seek development agreements with developers of key development sites in order to provide predictable timeframes and possible assurances that private development will occur based on the Reduced Development Program being relied upon by the City.

**Financial Mitigation**

The following mitigation plan is proposed to provide multiple levels of financial protection to fill any financial gaps that occur in the early years of the TIA until private development and TIF revenues stabilize or should the expected private development occur slower than planned.

**Level 1:**

Debt Issuance Timing & Structure. The City will reduce its financial exposure related to the timing and scope of private development by strategically timing the issuance of LTGO bond debt to coincide with the public infrastructure and private development timelines. The City anticipates issuing \$18 million in debt in 2025 and \$40 million in 2027 providing for greater development and TIA revenue certainty (a true interest cost of 4.21% as opposed to 4.5% above). The City may also

make additional adjustments in the timing and the amount of debt issuance based on development activity, the nexus between the identified infrastructure improvements and the proposed private development providing for greater development and tax revenue certainty to help pay the debt service associated with TIF infrastructure improvements. In this split issuance at a lower, the years of deficit fall from 9 to 5 and the amount of deficit decreases from \$5.5 million to \$4.6 million compared to the level payment condition at true interest cost of 4.5%.

Figure 25A: Net Surplus Deficit with Split Issue

TIF Allocation Revenues													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
<b>Baseline</b>													
TIF Revenues	\$0	\$0	\$624,000	\$1,282,000	\$2,062,000	\$2,839,000	\$2,996,000	\$3,171,000	\$3,717,000	\$4,261,000	\$4,436,000	\$4,615,000	\$4,664,000
TIF Debt Service	\$0	\$0	\$1,200,000	\$1,370,000	\$1,370,000	\$4,010,000	\$4,390,000	\$4,390,000	\$4,390,000	\$4,390,000	\$4,390,000	\$4,390,000	\$4,390,000
Annual Surplus/Deficit	\$0	\$0	(\$576,000)	(\$88,000)	\$692,000	(\$1,171,000)	(\$1,394,000)	(\$1,219,000)	(\$673,000)	(\$129,000)	\$46,000	\$225,000	\$274,000
Cumulative Surplus/Deficit	\$0	\$0	(\$576,000)	(\$664,000)	\$28,000	(\$1,143,000)	(\$2,537,000)	(\$3,756,000)	(\$4,429,000)	(\$4,558,000)	(\$4,512,000)	(\$4,287,000)	(\$4,013,000)

TIF Allocation Revenues													
Tax Year	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
<b>Baseline</b>													
TIF Revenues	\$4,712,000	\$4,997,000	\$5,287,000	\$5,384,000	\$5,591,000	\$5,933,000	\$6,170,000	\$6,235,000	\$6,300,000	\$6,365,000	\$6,432,000	\$6,499,000	\$6,566,000
TIF Debt Service	\$4,390,000	\$4,390,000	\$4,390,000	\$4,390,000	\$4,390,000	\$4,390,000	\$4,390,000	\$4,390,000	\$4,390,000	\$3,020,000	\$3,020,000	\$3,020,000	\$0
Annual Surplus/Deficit	\$322,000	\$607,000	\$897,000	\$994,000	\$1,201,000	\$1,543,000	\$1,780,000	\$1,845,000	\$1,910,000	\$3,345,000	\$3,412,000	\$3,479,000	\$6,566,000
Cumulative Surplus/Deficit	(\$3,691,000)	(\$3,084,000)	(\$2,187,000)	(\$1,193,000)	\$8,000	\$1,551,000	\$3,331,000	\$5,176,000	\$7,086,000	\$10,431,000	\$13,843,000	\$17,322,000	\$23,888,000

Source: ECONorthwest Calculations, 2023

The City may also structure the debt service to better correspond to the projected revenues from the TIA, thereby eliminating or reducing the need in the early years that the private development is not yet producing enough property tax revenues to support the public infrastructure debt service obligations as shown in Figure 20 above which spreads the debt out equally each year.

Figure 24B below is a modified debt service structure (interest only for first three years) designed to limit the City’s need to borrow from other sources to pay the projected debt service under the Reduced Development Program. In this interest only issuance, the years of deficit increase from 9 to 10 and the amount of deficit decreases from \$5.5 million to \$1.7 million compared to the level payment condition.

Figure 25B: Net Surplus Deficit with Interest Only Debt Service (first three years)

TIF Allocation Revenues													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
<b>Baseline</b>													
TIF Revenues	\$0	\$0	\$624,000	\$1,282,000	\$2,062,000	\$2,839,000	\$2,996,000	\$3,171,000	\$3,717,000	\$4,261,000	\$4,436,000	\$4,615,000	\$4,664,000
TIF Debt Service	\$0	\$0	\$740,000	\$840,000	\$840,000	\$3,140,000	\$3,360,000	\$3,370,000	\$4,810,000	\$4,810,000	\$4,810,000	\$4,810,000	\$4,810,000
Annual Surplus/Deficit	\$0	\$0	(\$116,000)	\$442,000	\$1,222,000	(\$301,000)	(\$364,000)	(\$199,000)	(\$1,093,000)	(\$549,000)	(\$374,000)	(\$195,000)	(\$146,000)
Cumulative Surplus/Deficit	\$0	\$0	(\$116,000)	\$326,000	\$1,548,000	\$1,247,000	\$883,000	\$684,000	(\$409,000)	(\$958,000)	(\$1,332,000)	(\$1,527,000)	(\$1,673,000)

TIF Allocation Revenues													
Tax Year	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
<b>Baseline</b>													
TIF Revenues	\$4,712,000	\$4,997,000	\$5,287,000	\$5,384,000	\$5,591,000	\$5,933,000	\$6,170,000	\$6,235,000	\$6,300,000	\$6,365,000	\$6,432,000	\$6,499,000	\$6,566,000
TIF Debt Service	\$4,810,000	\$4,810,000	\$4,810,000	\$4,810,000	\$4,820,000	\$4,810,000	\$4,810,000	\$4,810,000	\$4,810,000	\$3,310,000	\$3,310,000	\$3,310,000	\$0
Annual Surplus/Deficit	(\$98,000)	\$187,000	\$477,000	\$574,000	\$771,000	\$1,123,000	\$1,360,000	\$1,425,000	\$1,490,000	\$3,055,000	\$3,122,000	\$3,189,000	\$6,566,000
Cumulative Surplus/Deficit	(\$1,771,000)	(\$1,584,000)	(\$1,107,000)	(\$533,000)	\$238,000	\$1,361,000	\$2,721,000	\$4,146,000	\$5,636,000	\$8,691,000	\$11,813,000	\$15,002,000	\$21,568,000

Source: ECONorthwest Calculations, 2023

Alternatively, debt could be structured to proportionally match the expected tax allocation revenues with a longer interest only payment or more backloaded payments by capitalizing the interest. The tradeoff with both of these measures is more interest paid on the bond proceeds and the City would see years of deficits materialize in the last years of the payments due to the higher levels of debt services. In this case, there would be 7 years of deficit totaling \$1.3 million. In this unique situation, the City would need to consider mitigating two potential deficit years as opposed to just one with the added consideration that more of the project revenues would need to go toward interest payments.

Figure 25C: Net Surplus Deficit with Interest Only Debt Service (first three years and proportional to revenues)

TIF Allocation Revenues													
Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Baseline													
TIF Revenues	\$0	\$0	\$624,000	\$1,282,000	\$2,062,000	\$2,839,000	\$2,996,000	\$3,171,000	\$3,717,000	\$4,261,000	\$4,436,000	\$4,615,000	\$4,664,000
TIF Debt Service	\$0	\$0	\$740,000	\$840,000	\$840,000	\$2,490,000	\$2,720,000	\$2,720,000	\$3,580,000	\$3,580,000	\$3,580,000	\$3,670,000	\$3,700,000
Annual Surplus/Deficit	\$0	\$0	(\$116,000)	\$442,000	\$1,222,000	\$349,000	\$276,000	\$451,000	\$137,000	\$681,000	\$856,000	\$945,000	\$964,000
Cumulative Surplus/Deficit	\$0	\$0	(\$116,000)	\$326,000	\$1,548,000	\$1,897,000	\$2,173,000	\$2,624,000	\$2,761,000	\$3,442,000	\$4,298,000	\$5,243,000	\$6,207,000

TIF Allocation Revenues													
Tax Year	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Baseline													
TIF Revenues	\$4,712,000	\$4,997,000	\$5,287,000	\$5,384,000	\$5,591,000	\$5,933,000	\$6,170,000	\$6,235,000	\$6,300,000	\$6,365,000	\$6,432,000	\$6,499,000	\$6,566,000
TIF Debt Service	\$3,700,000	\$3,700,000	\$3,760,000	\$4,130,000	\$4,920,000	\$6,040,000	\$6,940,000	\$7,410,000	\$7,730,000	\$6,110,000	\$7,710,000	\$7,790,000	\$0
Annual Surplus/Deficit	\$1,012,000	\$1,297,000	\$1,527,000	\$1,254,000	\$671,000	(\$107,000)	(\$770,000)	(\$1,175,000)	(\$1,430,000)	\$255,000	(\$1,278,000)	(\$1,291,000)	\$6,566,000
Cumulative Surplus/Deficit	\$7,219,000	\$8,516,000	\$10,043,000	\$11,297,000	\$11,968,000	\$11,861,000	\$11,091,000	\$9,916,000	\$8,486,000	\$8,741,000	\$7,463,000	\$6,172,000	\$12,738,000

Source: ECONorthwest Calculations, 2023

**Level 2:**

Additional Taxes from Core Development Scenario:

Based on the Core Development Program (which is not estimated to produce tax allocations of equal value to the bond sales), it is projected the City will receive a present value of \$49.7 million in additional tax revenues generated by the proposed development. A portion of these incremental additional taxes can be used to support any infrastructure debt service gap in TIF revenues.

However, as part of the City’s evaluation of the Station Area Plan, a fiscal analysis was completed that compared incremental taxes to incremental services costs. On an operating basis, the preferred alternative of the Station Area Plan was estimated to net fiscal surpluses (where incremental tax dollars are in excess of incremental service costs). The City’s intent is to use these operating surpluses to invest in the needed capital improvements necessary to support the vision of growth and development in the area.

Of that \$57.3 million in tax revenues in the Core Scenario, it is necessary to account for: 1) that there are existing taxes being generated on some of these parcels that must be netted out as a result of redevelopment, 2) that these additional taxes must also offset the need to provide increased public services in the area, and 3) there will be some organic growth in taxes on other parcels that do not redevelop. In the fiscal analysis completed as part of that station area, there is an overall ratio of tax surplus to public service costs, estimated to be 1.69 to 1, meaning that for every dollar of increased General Fund service cost that was generated from the development and occupation of buildings, a \$1.69 in increased tax revenue was also made available from this activity. When the \$57.3 million in tax revenues is adjusted to account for the three factors above, the result reduces the amount available to \$33.7 million over the 25-year period (present value at 4.5%).

In a Core Development scenario, TIF allocation revenues will barely cover debt service payments (presented as equal payments) over the course of the bond and additional incremental revenues would be needed to service the debt by some reasonable coverage margin. This comparison is shown in the figure below. The additional taxes would cover all but one year where deficits might be expected (\$440,000 annual deficit). If such a case were to arise, the debt could be structured differently as shown in Level 1 above or temporary cash flow coverage from other funds (e.g., reserves as described below) until either incremental taxes or TIF revenue allocations could be used to repay them.

Figure 25: Comparison of Debt Payment Surplus/Deficits and Other Additional Taxes Sample

TIF Allocation Revenues													
Assessment Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
<b>Core</b>													
TIF Surplus/Deficit	\$0	\$0	(\$760,000)	(\$102,000)	\$678,000	(\$1,620,000)	(\$1,463,000)	(\$1,288,000)	(\$764,000)	(\$243,000)	(\$199,000)	(\$154,000)	(\$109,000)
Additional Taxes	\$480,000	\$730,000	\$320,000	\$2,550,000	\$3,340,000	\$1,990,000	\$1,680,000	\$3,490,000	\$4,020,000	\$2,730,000	\$2,770,000	\$2,820,000	\$2,870,000
Surplus/Deficit	\$480,000	\$730,000	(\$440,000)	\$2,448,000	\$4,018,000	\$370,000	\$217,000	\$2,202,000	\$3,256,000	\$2,487,000	\$2,571,000	\$2,666,000	\$2,761,000
Assessment Year	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
TIF Surplus/Deficit	(\$64,000)	(\$18,000)	\$29,000	\$75,000	\$122,000	\$170,000	\$218,000	\$267,000	\$316,000	\$1,749,000	\$1,799,000	\$1,850,000	\$4,976,000
Additional Taxes	\$3,690,000	\$3,880,000	\$3,200,000	\$4,010,000	\$4,330,000	\$3,870,000	\$3,930,000	\$4,000,000	\$4,070,000	\$4,140,000	\$4,200,000	\$4,280,000	\$4,350,000
Surplus/Deficit	\$3,626,000	\$3,862,000	\$3,229,000	\$4,085,000	\$4,452,000	\$4,040,000	\$4,148,000	\$4,267,000	\$4,386,000	\$5,889,000	\$5,999,000	\$6,130,000	\$9,326,000

Source: ECONorthwest Calculations, 2023

**Level 3:**

Reserves. The City has sufficient reserves that are not allocated to any specific operating or capital expense that can be used for payment of debt service for its infrastructure obligations for the Station Area Development if property tax revenue from the TIA is insufficient. These reserves include:

City Reserves	Approximate Amount
General Fund	\$60 million
General Capital	\$4 million
REET	\$10 million
Utilities	\$15 million

The revenue sources in Level 3 exceed the projected cost of the TIF infrastructure. The City’s reserves are the last line of defense against lower TIF revenues than projected.

**Additional Mitigation Measures**

Public Infrastructure Cost Containment. Municipal agencies have vast experience with building horizontal infrastructure (streets, water, sewer, etc.). The City of Kirkland is no exception and takes pride in its ability to provide conservative construction estimates, create clear construction bid documents, and effectively manage the construction delivery process. The cost estimates for the TIF public infrastructure improvements are currently planning level estimates and include a 30 percent contingency at this time to buffer any volatility in the construction industry. Construction costs will be further refined prior to the issuance of any debt. The City plans to support some if not most of the design costs for all of the identified TIF infrastructure projects (with repayment from future TIF funds) up to receiving public bids and contract(s) awarded prior to the issuance of debt providing for additional certainty of costs.

Conservative TIF Levy Rate. A TIF levy rate of \$2.95 per \$1,000 of assessed valuation is included in this Project Analysis. This amount excludes some expected King County levy lid lifts for specific purposes (see Figure 14 above) which would add another \$0.54 to the levy amount. These levy lid lifts have been removed for the calculation of TIF revenues because they would require multiple authorizations over the term of the TIA’s existence, although the passage of them is likely, and to safeguard against future changes, if any, in the TIF law regarding levy lid lifts.



There are other risks that a municipal government faces regularly such as: construction delays which increase costs for public infrastructure improvements; economic slowdown or recession; higher borrowing costs than even accounted for in the Project Analysis; and lower levy rates within the TIA than anticipated. The City of Kirkland has been successful in addressing these secondary type risks by using conservative estimates and adherence to prudent fiscal and construction management policies. The City will continue these same practices as it implements the proposed TIA and the associated infrastructure improvements.

## **Kirkland TIF Team**

### City of Kirkland

- Kurt Triplett, City Manager
- Tracey Dunlap, Deputy City Manager (now retired)
- Michael Olson, Director of Finance & Administration
- Sri Krishnan, Deputy Director of Finance & Administration
- George Dugdale, Financial Planning Manager
- Kevin Pelstring, Financial Planning Supervisor
- Allison Zike, Deputy Planning and Building Director

### Tax Increment Financing Consultants

- Bob Stowe, Stowe Development & Strategies (TIF Project Manager)
- Morgan Shook, ECONorthwest

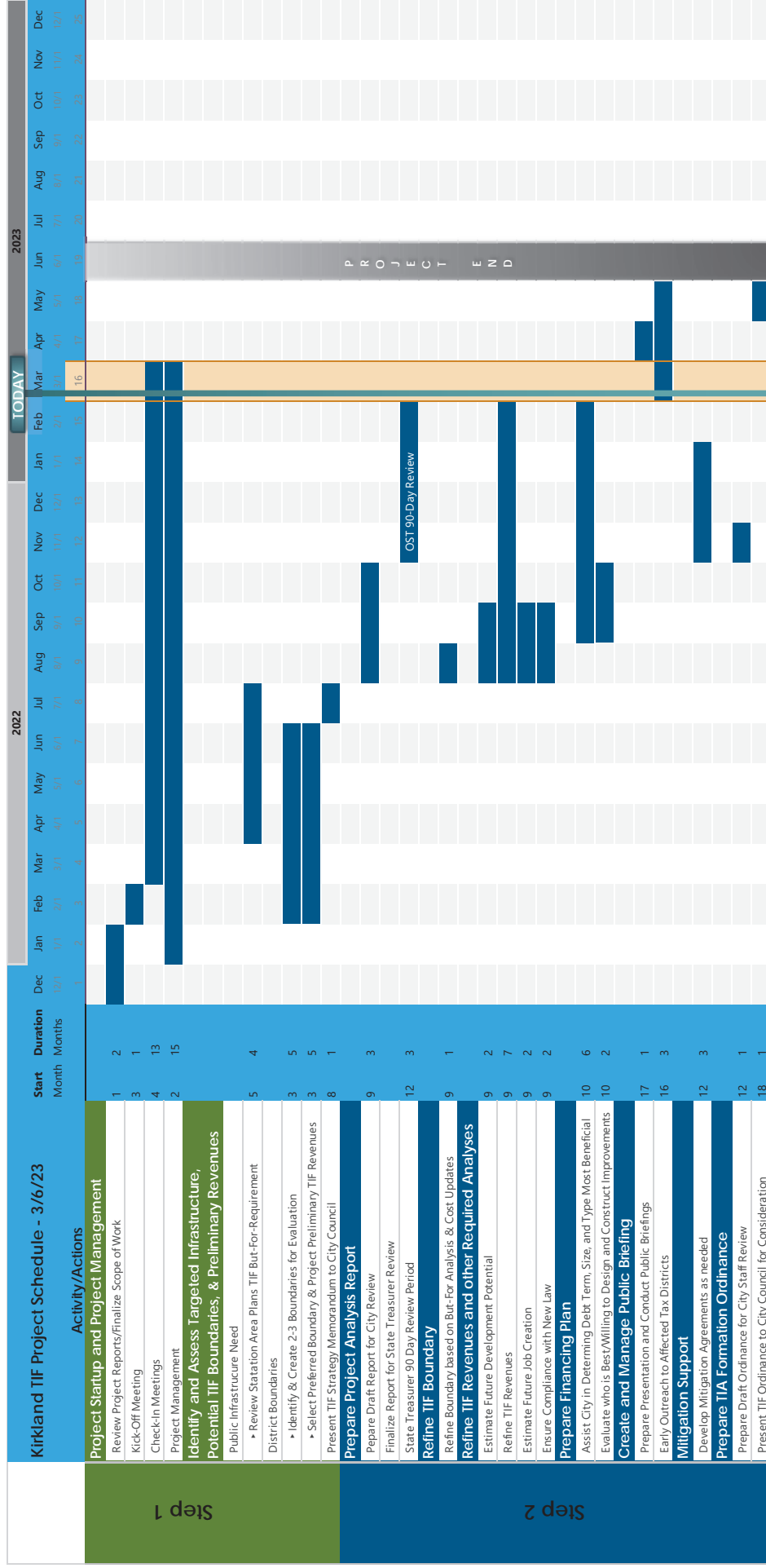
### Legal & Financial Advisors

- Deanna Gregory, Bond Counsel, Pacifica Law Group - Partner
- Stacey Crawshaw-Lewis, Bond Counsel, Pacifica Law Group – Partner
- Fred Eoff, Financial Advisor, PFM – Director
- Maggie Marshall, Financial Advisor, PFM - Senior Managing Consultant

## **Future TIF Actions**

There are a number of actions that will occur before the Kirkland City Council formally considers the formation of a TIA for the Station Area. First, is to receive and review feedback offered by the Office of the State Treasurer related to this Project Analysis. Second, based on any feedback, the TIF team will evaluate and make appropriate adjustments to its proposed TIF program. Third, it will conduct two separate public briefings on the proposed TIA for the Station Area and provide formal notice in the local newspaper. The City will continue to engage its local partners including King County, as discussions continue. There are also a number of planning, engineering, finance, and legal activities that will occur to advance the proposed public infrastructure and private development for the Station Area. Below is an expected schedule for the future TIF action.

# Timeline



## Findings | Bottom Line

The envisioned Station Area Development would not be viable without the City's intervention to provide the identified infrastructure via the establishment of a TIA. The City has demonstrated a strong nexus between the proposed development and the proposed infrastructure. The City is conservatively estimating the potential revenues that will be generated by the formation of a TIA and has sufficient resources to pay for infrastructure debt service should the expected TIA revenues not materialize.

There are no negative impacts to affordable housing, the local business community, the local school district, and there are no local fire districts. The Station Area Development will provide for significant jobs and investment into the local and regional economy.

Based on all of the above findings and information contained in this Project Analysis, the Station Area Development and its proposed TIA meets both the spirit and the letter of Washington's State's new law.

## APPENDICES

- State Audit Report Summary
- Fiscal Impacts and Community Benefits Analysis | Final Technical Memo
- Consultant Team Bios



# State Audit Report Summary

NE 85th Study Area Future Vision, Looking West





<b>City of Kirkland - Funds available for Debt Service</b>						
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022 - Budgeted</b>
	<b>Total</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>
Beginning Cash Available for Debt Service	68,256,177	75,971,298	85,845,591	87,209,320	101,371,673	109,274,650
<b>Operating Revenue Available for Debt Service</b>						
Operating Revenue	120,317,585	131,634,965	143,251,471	146,565,746	157,157,061	136,715,900
Operating Expenditures	93,131,793	99,661,402	103,190,314	114,331,518	117,333,422	130,532,913
<b>Operating Income (Loss)</b>	27,185,792	31,973,563	40,061,157	32,234,228	39,823,639	6,182,987
<b>Total Revenue Available for Debt Service</b>	<b>95,441,969</b>	<b>107,944,861</b>	<b>125,906,748</b>	<b>119,443,548</b>	<b>141,195,312</b>	<b>115,457,637</b>
<b>Debt Service (General Obligation)</b>	<b>(4,147,909)</b>	<b>(4,127,343)</b>	<b>(4,101,747)</b>	<b>(4,075,708)</b>	<b>(3,536,211)</b>	<b>(5,408,043)</b>
Other Inflows (Outflows)	(16,520,263)	(17,971,928)	(36,870,276)	(13,996,167)	(28,384,451)	(34,460,562)
<b>Ending available fund balance</b>	<b>74,773,797</b>	<b>85,845,590</b>	<b>84,934,725</b>	<b>101,371,673</b>	<b>109,274,650</b>	<b>75,589,032</b>
Nonspendable	443,551	743,419	839,775	819,265	871,068	
Restricted for:						
Drug enforcement	116,072	393,670	148,975	100,286	74,397	
Fire interlocal	130,753	252,787	130,702	124,424	159,334	
Prop one			345,943	888,783	751,530	
Fire pension	1,197,501	1,306,638	1,264,218	1,306,682	1,292,976	
Committed ARCH			-	4,696,369	2,266,988	
<b>Total restricted funds</b>	<b>1,887,877</b>	<b>2,696,514</b>	<b>2,729,613</b>	<b>7,935,809</b>	<b>5,416,293</b>	<b>-</b>
<b>Ending Cash Available for Debt Service</b>	<b>72,885,920</b>	<b>83,149,076</b>	<b>82,205,112</b>	<b>93,435,864</b>	<b>103,858,357</b>	<b>75,589,032</b>

# Fiscal Impacts & Community Benefits Analysis Final Technical Memo

NE 85th Study Area Future Vision, Looking West



# City of Kirkland NE 85<sup>TH</sup> SAP Supplemental Study

**Fiscal Impacts and Community Benefits Analysis**  
Final Technical Memo

**November 2021**

---

**Consultant Team**

Mithun  
BERK Consulting, Inc.  
ECONorthwest  
Fehr & Peers



# Contents

- Executive Summary..... i**
- 1.0 Introduction..... 1-1**
  - 1.1 Project Context and Focus of this Supplemental Study ..... 1-1
  - 1.2 Structure of this Document ..... 1-1
- 2.0 Growth Analysis: June Alternatives for Study ..... 2-1**
  - 2.1 Summary of Employment and Residential Capacity in June Alternatives..... 2-5
  - 2.2 Summary of Transportation Analysis of June Alternatives..... 2-6
- 3.0 Infrastructure Investment Methodology ..... 3-11**
  - 3.1 Transportation ..... 3-13
  - 3.2 Water and Sewer ..... 3-16
  - 3.3 Stormwater..... 3-18
- 4.0 Fiscal Impacts Analysis ..... 4-1**
  - 4.1 Fiscal Analysis: Purpose and Context..... 4-1
  - 4.2 Revenue Analysis Methodology ..... 4-4
  - 4.3 Cost Analysis Methodology ..... 4-7
  - 4.4 Operating Revenues and Costs..... 4-15
  - 4.5 Capital Revenues and Costs ..... 4-18
  - 4.6 Summary of Net Fiscal Impact..... 4-31
  - 4.7 Sensitivity Analyses..... 4-32
- 5.0 Community Benefits Analysis ..... 5-1**
  - 5.1 Community Benefits Framework ..... 5-1
  - 5.2 Understanding Potential for Value Capture to Deliver Community Benefits..... 5-2
  - 5.3 Community Benefits Strategies..... 5-8
- 6.0 Summary of Findings and Recommendations ..... 6-1**
  - 6.1 Is the City’s Station Area Vision Feasible? ..... 6-1
  - 6.2 Recommendations ..... 6-1
- Appendices..... I**
  - 1. Transportation Supplemental Study
  - 2. Water and Sewer Supplemental Study
  - 3. Stormwater Supplemental Study

# Exhibits

- Exhibit 2-1. June Alternative A: Current Trends – Development Typologies ..... 2-3
- Exhibit 2-2. June Alternative B: Transit Connected Growth- Development Typologies ..... 2-3
- Exhibit 2-3. Station Area Initial Concepts..... 2-4
- Exhibit 2-4. Employment and Household Totals Assumed in June Alternatives and DSEIS..... 2-5
- Exhibit 2-5. Employment and Residential Growth in June Alternative B..... 2-5
- Exhibit 2-6. PM Peak Hour Vehicle Trip Generation using MXD+ /BKR Model Mode Share Estimates .... 2-6
- Exhibit 2-7. Traffic Volume Increase (2035 No Action vs. 2044 Alternative 2) ..... 2-7
- Exhibit 2-8. Traffic Volume Increase (2035 No Action vs. 2044 Alternative B) ..... 2-7
- Exhibit 2-9. LOS Results for Evaluated Alternatives (without mitigation).....2-10
- Exhibit 2-10. LOS and Average Control Delay .....2-10
- Exhibit 3-1. June Alternative A – Representative Infrastructure Investments .....3-11
- Exhibit 3-2. June Alternative B – Representative Infrastructure Investments.....3-12
- Exhibit 3-3. Level of Traffic Stress Concept .....3-13
- Exhibit 3-4. Alt A Bike Level of Stress Network.....3-15
- Exhibit 3-5. Alt B Bike Level of Stress Network.....3-15
- Exhibit 3-6. Alt A Potential Bikeshed from BRT Station.....3-15
- Exhibit 3-7. Alt B Potential Bikeshed from BRT Station .....3-15
- Exhibit 3-8. Impacted Transit Ridership .....3-16
- Exhibit 4-1. Fiscal Projections for a Prototypical Washington City ..... 4-2
- Exhibit 4-2. Kirkland General Fund Forecast, 2021-2026..... 4-2
- Exhibit 4-3. Fiscal Model Structure ..... 4-3
- Exhibit 4-4. Land Development and Tax Revenue Generation..... 4-4
- Exhibit 4-5. Park LOS Guideline and Estimated Facility/Acre Costs, 2021\$.....4-14
- Exhibit 4-6. Alternative A General Operating Revenues, YOES\$ .....4-15
- Exhibit 4-7. Alternative B General Operating Revenues, YOES\$.....4-16
- Exhibit 4-8. Alternative A General Operating Costs by Departmental Category, YOES\$.....4-17
- Exhibit 4-9. Alternative B General Operating Costs by Departmental Category, YOES\$ .....4-17
- Exhibit 4-10. Alternative A & B General Operating Revenues and Costs - Cumulative, YOES\$ .....4-18
- Exhibit 4-11. Capital Revenues from Alternative A, YOES\$.....4-19
- Exhibit 4-12. Capital Revenues from Alternative B, YOES\$ .....4-20



Exhibit 4-13. Alternative A Capital Costs by Department, YOES\$ .....	4-20
Exhibit 4-14. Alternative B Capital Costs by Department, YOES\$.....	4-21
Exhibit 4-15. Alternative A & B Capital Surplus/Deficit Summary – Cumulative, YOES\$ .....	4-22
Exhibit 4-16. Alternative A & B Capital Surplus/Deficit by Improvement Type – Cumulative, YOES\$ ....	4-22
Exhibit 4-17. Alternative B Fire Fleet Capital Surplus/Deficit – City Portion, YOES\$ .....	4-23
Exhibit 4-18. Alternative A & B Fire Fleet Cumulative Capital Surplus/Deficit, YOES\$.....	4-24
Exhibit 4-19. Alternative B Police and Municipal Capital Surplus/Deficit – City Portion, YOES\$.....	4-24
Exhibit 4-20. Alternative A & B Police and Municipal Cumulative Capital Surplus/Deficit, YOES\$ .....	4-25
Exhibit 4-21. Alternative B Transportation Capital Surplus/Deficit – City Portion, YOES\$.....	4-26
Exhibit 4-22. Alternative A & B Transportation Cumulative Capital Surplus/Deficit, YOES\$ .....	4-26
Exhibit 4-23. Alternative B Water Capital Surplus/Deficit – City Portion, YOES\$.....	4-27
Exhibit 4-24. Alternative A & B Water Cumulative Capital Surplus/Deficit, YOES\$ .....	4-27
Exhibit 4-25. Alternative B Sewer Capital Surplus/Deficit – City Portion, YOES\$.....	4-28
Exhibit 4-26. Alternative A & B Sewer Cumulative Capital Surplus/Deficit, YOES\$.....	4-28
Exhibit 4-27. Stormwater Capital Surplus/Deficit – City Portion, YOES\$ .....	4-29
Exhibit 4-28. Alternative A & B Stormwater Cumulative Capital Surplus/Deficit, YOES\$.....	4-29
Exhibit 4-29. Alternative B Parks Capital Surplus/Deficit – City Portion, YOES\$ .....	4-30
Exhibit 4-30. Alternative A & B Parks Cumulative Capital Surplus/Deficit, YOES\$.....	4-30
Exhibit 4-31. Alternative A and B Total Surplus/Deficit – Cumulative, YOES\$.....	4-31
Exhibit 4-32. East Quadrants Share of Operating Revenues for Alternative B.....	4-32
Exhibit 4-33. Alternative B Infrastructure Costs, West vs. East Quadrants of Study Area, YOES\$.....	4-33
Exhibit 4-34. Commercial Portion of East Quadrants Share of Operating Revenues.....	4-34
Exhibit 4-35. Operating Cost Comparison, Commercial vs. Residential.....	4-35
Exhibit 5-1. Residual Land Value .....	5-3
Exhibit 5-2. Residual Land Value .....	5-4
Exhibit 5-3. Comparison of Residual Land Value to Land Value .....	5-5
Exhibit 5-4. Summary of Residual Land Value .....	5-6
Exhibit 5-5. Residual Land Value Sensitivity to Parking .....	5-7
Exhibit 5-6. Potential Structure of Base Requirements and Bonus Incentives. ....	5-13

# Executive Summary

*The project vision for the NE 85<sup>th</sup> Street Station Area Plan describes a thriving walkable urban center with plentiful affordable housing, jobs, sustainable development, and shops and restaurants linked by transit calls for significant population and employment growth. Additional residential and employment options are a substantial community benefit by itself, contributing to City of Kirkland goals for a more inclusive community with housing options and job creation in the Greater Downtown and near transit hubs. To be careful stewards of public resources, City Council has asked if Kirkland can afford the investments necessary to address increased demand on public services, especially schools, parks and open spaces, transportation, and utilities, and avoid a reduction in service for existing residents and businesses.*

*The short answer is yes, so long as the City employs a variety of strategies to balance the City's overall budget and needs generated by Station Area growth. In fact, much like the rest of Kirkland and many suburban communities, the City will face significant capital investments and demands for services if the area continues to develop under current trends. By embracing the vision of concentrated transit-growth in the Station Area, the City will be able to serve concentrated growth more efficiently and access more tools for investment in public infrastructure and City operations.*

## **Station Area Plan Background**

In 2019, the City commissioned the NE 85<sup>th</sup> Street Station Area Plan to evaluate how to leverage the regional transit investment of Washington State Department of Transportation (WSDOT) and Sound Transit in the planned Inline Bus Rapid Transit (BRT) / Interchange project. The Station Area is a unique location on the eastside and in Kirkland. The new WSDOT / Sound Transit Bus Rapid Transit station at I-405 and NE 85<sup>th</sup> will connect Kirkland regionally to light rail at Bellevue, Lynnwood, and to SeaTac with frequent bus service every 10-15 minutes. The Opportunities and Challenges Analysis found that the Station Area is significantly underutilized today – with 45% of the area used for surface parking – and has good potential for residential development and a strong location advantage for office development and new jobs.

The project Vision for the Station Area Plan is a thriving walkable urban center with plentiful affordable housing, jobs, sustainable development, and shops and restaurants linked by transit. Compact, transit-oriented growth around the new regional BRT and trail connections are a chance to grow smart, increase access to opportunity, promote the vision in the Comprehensive Plan and Sustainability Master Plan, and benefit the Station Area and Kirkland as a whole. The City's Objective is to leverage the BRT station regional transit investment and to maximize transit-oriented development and create the most:

1. Opportunity and Inclusion,
2. Value for the City,
3. Community Benefits, including affordable housing, and
4. Quality of life.

In fall and winter of 2020, three draft Alternatives were developed for the Draft Supplemental Environmental Impact Statement (DSEIS) for the project. The DSEIS Alternatives studied were based on input from the public, Planning Commission, and City Council, to guide growth around the new bus rapid transit station over the next 20+ years: Alternative 1 – No Action, Alternative 2 – Guiding Transit-

Oriented Growth, and Alternative 3 – Transit-Oriented Hub. Alternative 2, Guiding Transit-Oriented Growth, had the most favorable response and alignment with objectives. Mobility, infrastructure, and inclusion are some of the greatest opportunities and challenges of the Station Area Plan.

The City Council wanted to consider the Draft Alternatives further, and after project scope reassessment, directed a supplemental study. That supplemental study was designed to respond to community and City Council concerns and included a Fiscal Impacts and Community Benefits Study and supplemental transportation analysis items. The supplemental work began in May 2021 to understand the practical implications of options being considered. The results will help shape a preferred direction for the Station Area Plan.

### **Fiscal Impacts and Community Benefits Study**

Today, housing in Kirkland is 50% more expensive than the average of King County and 89% of the jobs in the City are held by people living outside Kirkland. These dynamics are prevalent in the Station Area and result in long commute times and reduced quality of life. Community risk is increased by congested traffic conditions combined with lack of attainable housing that impede the ability of essential workers to get to their jobs in case of emergencies and is increased by contributing to poor air quality that can exacerbate health conditions and crises like COVID-19. If development in line with the current zoning in the Station Area Plan occurs, it will not generate enough revenue to pay for the infrastructure and City services necessary to serve the growth. Similarly, the infrastructure and service improvements in Kirkland's master plans are not fully funded.

The Fiscal Impacts analysis tested if the City could support infrastructure and service needs for future potential growth scenarios, and the Community Benefits analysis looked to maximize affordable housing and access to opportunity, as well as identify tools to help provide needed infrastructure to serve growth. The Study resulted in a recommended Infrastructure Investment Framework and a Community Benefits Policy Framework.

The Public Infrastructure and Services Investment Framework recommends how value for the City can be achieved by sustainable service provision and with fiscal responsibility; as well as how quality of life can be achieved with mobility for all ages and abilities, and access to parks. The Community Benefits Policy Framework recommends how the City can expand opportunity and inclusion with affordable housing and workforce development and by supporting schools and open space; and community benefits realized by greater sustainability, community resilience and health outcomes.

The numbered summary items below correspond to the sections of the full report which follows.

**Section 2.0 Growth Analysis: June Alternatives for Study** describes how the DSEIS Alternatives were narrowed for purpose of this study, including buildout estimates for next 23 years, and rebalancing the mix and level of growth to better manage transportation impacts. These two Alternatives were based on public, Planning Commission, and Council feedback, and were developed to be compared:

- **June Alternative A: Current Trends** is based on the starting point of DSEIS Alternative 1: No Action. A 'No Action' Alternative showing growth in line with Kirkland's Comprehensive Plan is a requirement of the DSEIS process. For June Alternative A: Current Trends, the growth targets were adjusted upward because growth in the past six years has outpaced the assumptions made in the 2015 Comprehensive Plan. June Alternative A: Current Trends maintains existing zoning heights throughout the district and slightly adjusts the assumed 2044 growth projections to reflect current market trends, showing more jobs, and only slightly more housing than DSEIS Alternative 1.

- June Alternative B: Transit Connected Growth** is aligned with the overall Station Area Plan growth framework in the Initial Concepts and used DSEIS Alternative 2 as a base while incorporating select elements shown in the commercial corridors of DSEIS Alternative 3. June Alternative B only studies increased allowable heights in areas that provide clear benefits to the community and take advantage of regional transit connections. To that end, several areas where height increases had been proposed as part of DSEIS Alternative 2 and 3 were removed from consideration, including areas that are unlikely to redevelop due to market forces, are limited by development feasibility, or are constrained by other considerations. Alternative B: Transit Connected Growth results in similar household growth numbers as DSEIS Alternative 2, but lower employment numbers than DSEIS Alternative 3, showing more of a jobs-housing balance. The Southwest Quadrant of the Study Area has lower growth numbers, closer to what was proposed for DSEIS Alternative 1.

The table below summarizes the growth assumptions associated with the DSEIS and June Alternatives:

	DSEIS No Action	June Alternative A	June Alternative B	DSEIS Alternative 2	DSEIS Alternative 3
Households	2,782	2,929	8,152	8,509	10,909
Employment	10,859	12,317	22,751	28,688	34,988

- Supplemental Transportation analysis** was completed to support the narrowing of Alternatives and better understand how the mix and level of growth could be adjusted to reduce the impacts modeled in DSEIS Alternative 2. It also included sensitivity testing of any impacts to the I-405/NE 85th interchange, and while the micromodel showed some delays on NE 85th, the increases did not significantly affect the operations of the interchange or the freeway mainline.

**Section 3.0 Infrastructure Investment** summarizes how planning level studies were conducted to determine a set of representative infrastructure investments needed to maintain service levels in transportation, water and sewer, and stormwater given the employment and household growth assumed for June Alternatives A and B. These studies were produced for development of conceptual cost estimates for fiscal modeling of the Station Area and are not intended to show a preferred plan or final project configurations, which will be developed in later stages of planning and are subject to City Council approval.

Key findings from each infrastructure study include:

- The City needs to make significant transportation improvements in either Alternative.** In Alternative B, the largest City-funded representative improvements are:
  - Kirkland Way Complete Streets (an improvement which requires rebuilding of the Cross Kirkland Corridor (CKC) bridge and is also assumed under Alternative A).
  - 124th Ave NE Roadway Widening to 5 Lanes, NE 85th St. to NE 90th St. (an improvement also assumed under Alternative A).
  - 90th St Complete Streets Improvements (two projects, both projects are also assumed under Alternative A).

- NE 85<sup>th</sup> St. Shared Use Trail Improvements, 5<sup>th</sup> St. to Kirkland Way (an improvement that only takes place in Alternative B).
- Under either scenario outlined above, **additional water and sewer system improvements** will be needed to meet expected growth in the Station Area beyond implementation of the City's existing Capital Improvement Programs (CIPs) as shown in the 2015 Water System Plan (WSP) and 2018 General Sewer Plan (GSP). Additional improvements will be needed in June Alternative B, above and beyond those needed in June Alternative A, to meet projected growth given proposed zoning changes in the Station Area. Additional water and sewer system improvements are identified in these analyses as a representative list of projects that could serve the level of buildout described in June Alternative B:
  - The water system would not be able to meet the rezoned fire flow requirements without additional improvements.
  - The sewer system would not be able to meet the additional flows from the Station Area without additional improvements.
- After determining the potential flooding locations resulting from parcel improvements for basins in the northeast and southeast quadrants of the Study Area for each developed scenario, **stormwater mitigation options** were evaluated to determine their effectiveness at reducing runoff and conveyance capacity issues along the stormwater main line.
  - For either Alternative, development of these portions of the Study Area and any associated increases in impervious surface area will not have any negative downstream impacts due to existing policies and mitigation requirements.
  - Under either Alternative, the only recommended stormwater project within these portions of the Study Area consists of replacing 520 feet of pipe along 120<sup>th</sup> Ave NE with a smoother pipe material.
  - Although not directly related to the Station Area, outside of the Study Area, the analysis showed an increase in runoff from the upstream residential areas causing potential flooding, that is not exacerbated by potential allowed development represented in either June Alternative A or B.

**Section 4.0 Fiscal Impacts Analysis** is designed to answer a key question: *With population growth and redevelopment in the Station Area Plan, comparing June Alternatives A and B, can the City afford the investments necessary to address increased demand on public services, especially schools, parks/open spaces, transportation, and utilities, and avoid a reduction in service for existing residents and businesses?*

ECONorthwest developed a revenue model to project associated operating and capital revenues for the City, as well as revenues for key City partners. Operating and capital revenues were calculated based on the changes in the components of the City's tax base resulting from redevelopment in the Study Area. BERK led development of the cost model and calculation of net fiscal impact by comparing City revenues to expenses. Operating cost projections were developed in collaboration with City staff and are based on estimated operational impacts to each of the City's departments. Capital cost projections were



developed in collaboration with City staff as well as the consultants engaged by the City to conduct the planning level studies noted above.

**Operating Net Fiscal Impact.** On both an annual and cumulative basis, general operating revenues are projected to cover general operating costs under either Alternative during the study period. The table below details cumulative general operating revenues and costs through 2044 for both Alternatives.

**Alternative A & B General Operating Revenues and Costs - Cumulative, YOES**

Type	Alt A	Alt B
General Operating Revenues	58.7M	\$199.7M
General Operating Costs	-\$31.9M	-\$117.5M
<b>Total General Operating Surplus/Deficit</b>	<b>\$26.8M</b>	<b>\$82.2M</b>

Sources: FCSG, 2020; ECONorthwest, 2021; City of Kirkland, 2021; BERK, 2021.

While operating costs are significantly higher in Alternative B to serve new growth in the Station Area, revenues generated by potential future uses are also significantly higher. Under Alternative B, the City is projected to generate a general operating surplus of around \$82.2 million by 2044, around \$55.4 million more than the general operating surplus generated in Alternative A.

Costs stemming from functions funded by permit-related revenue sources and utility operating revenue sources are assumed to be covered by those revenue sources based on increased demand for services in the Study Area and not included in the analysis above.

**Capital Net Fiscal Impact.** Under either Alternative, significant capital needs are anticipated, with the City projected to see large shortfalls in covering capital needs unless other funding strategies are implemented. The table below outlines the projected cumulative surplus/deficit for capital costs and capital revenues through 2044 for both Alternatives. As a note, capital improvements needed in Alternative A are also assumed to be needed in Alternative B as those improvements will be needed to accommodate growth under either scenario.

**Alternative A & B Capital Surplus/Deficit Summary – Cumulative, YOES**

Type	June Alt A	June Alt B
Dedicated Capital Revenues	\$68.2M	\$252.7M
Development-funded Improvements	\$33.0M	\$84.8M
Total Capital Improvements	-\$265.2M	-\$455.2M
<b>Capital Surplus/Deficit</b>	<b>-\$164.0M</b>	<b>-\$117.7M</b>

Note: Numbers may not add up due to rounding.

Sources: FCSG, 2020; City of Kirkland, 2021, Fehr & Peer’s, 2021; RH2, 2021; RKI, 2021; HBB, 2021; ECONorthwest, 2021; BERK, 2021.

While Alternative B is estimated to generate more in total capital improvements than Alternative A, under Alternative B, significantly more dedicated capital revenues are also estimated to be generated, along with more improvements assumed to be funded through development. Compared with Alternative A, this results in a decrease in capital deficit of around \$46.3 million (-\$117.7 million in Alternative B versus -\$164.0 million in Alternative A).

As shown below, in Alternative A, significant shortfalls are projected for transportation, water, sewer, and parks capital improvements. In Alternative B, significant shortfalls are projected for sewer and parks capital improvements.

**Alternative A & B Capital Surplus/Deficit by Improvement Type – Cumulative, YOES**

Capital Improvement Type	June Alt A Capital Surplus/Deficit	June Alt B Capital Surplus/Deficit
Fire	\$1.1M	\$0.6M
Police Fleet and Municipal Facilities	-\$0.4M	-\$1.7M
Transportation	-\$73.4M	\$27.2M
Water	-\$5.3M	\$3.6M
Sewer	-\$70.7M	-\$53.5M
Stormwater	-\$0.5M	-\$0.3M
Parks	-\$14.8M	-\$93.5M
<b>Total Capital Surplus/Deficit</b>	<b>-\$164.0M</b>	<b>-\$117.7M</b>

Note: Surplus/Deficit does not include using general government operating surplus to cover gaps. Numbers may not add up due to rounding.

Sources: FCSG, 2020; City of Kirkland, 2021, Fehr & Peer’s, 2021; RH2, 2021; RKI, 2021; HBB, 2021; ECONorthwest, 2021; BERK, 2021.

For each type of capital improvement, the City has available strategies that could be pursued to cover capital costs in Alternative.

**Summary of Net Fiscal Impact.** While it is important to note that restrictions on certain revenue sources exist and, as a result, not all revenues can be applied to certain costs, for contextual purposes, it can be helpful to understand where each Alternative ends up on a total surplus/deficit basis.

The table below details a comparison of both Alternatives on a total surplus/deficit basis. Major takeaways include:

- Under either Alternative, operating revenues are projected to cover operating needs by 2044
- Under either Alternative, significant capital needs are anticipated, with the City projected to see large shortfalls in covering capital needs unless other funding strategies are implemented
- As mentioned, while restrictions on certain revenue sources exist, on a total surplus/deficit basis, under Alternative B, the City’s deficit is significantly lower than what is projected under Alternative A.

The City is projected to have a total deficit of around \$35.5 million in Alternative B and a total deficit of around \$137.2 million in Alternative A.

**Alternative A and B Total Surplus/Deficit – Cumulative, YOE\$**

Surplus/Deficit	Alt A	Alt B
General Operating Surplus/Deficit	\$26.8M	\$82.2M
Capital Surplus/Deficit	-\$164.0M	-\$117.7M
<b>Total Surplus/Deficit</b>	<b>-\$137.2M</b>	<b>-\$35.5M</b>

Sources: FCSG, 2020; City of Kirkland, 2021, Fehr & Peer’s, 2021; RH2, 2021; RKI, 2021; HBB, 2021; ECONorthwest, 2021; BERK, 2021.

Reasons for differences in the fiscal outlook between Alternatives include:

- Generation of a higher operating surplus in Alternative B relative to Alternative A driven by estimated increases in general operating revenues such as sales and property tax revenues
- A smaller capital shortfall in Alternative B relative to Alternative A due to estimated increases in dedicated capital revenues such as impact fees, REET, and capital facility charges as well as an increase in capital improvements funded by development.

It is important to note that the City’s CIP looks at project funding for a six-year window and that future projects are shown as unfunded until they are prioritized into the CIP window. Funding strategies will be developed to address any funding gap that exists under current planning assumptions. The Station Area plan could provide additional funding and community benefit tools to help address capital needs as discussed in **Section 6.0**.

**Section 5.0 Community Benefits Analysis** aims to answer the following questions:

- How can the public receive benefits of growth?
- How can development increase affordable housing, open space, transit/bike/walk connections, and sustainability?

This section studies priority benefits that were chosen based on community feedback, City Council and Planning Commission direction, and initial findings from the DSEIS and 2020 Opportunities and Challenges Report. They include schools, parks and public realm, affordable housing, sustainability, and mobility.

**Community Benefits Analysis: Potential Value Capture**, described in Section 5.2, is based on a Residual Land Value (RLV) study of the full build-out of allowed development. It studies whether and to what degree the increased development entitlements considered in June Alternatives A and B create potential for value capture to provide additional community benefits. The RLV estimates offer a snapshot of value capture potential for the planned types of growth in the area based on typical development costs, estimated rents for new development, and approximate values of existing property.

The Residual Land Value analysis determined there is greatest potential for value capture for commercial development and increasing value potential in 10+ story development compared with 5-9 story

development. The analysis also found that mid-rise residential is not feasible everywhere in the near term, and additional affordability requirements or other value capture costs may delay development, which could result in less housing production subject to the inclusionary requirements. If the City did want to pursue increasing the existing Inclusionary Zoning requirements for affordable housing, it would be important to monitor how the policy change influences production. For both residential and non-residential development, reducing parking ratios is important for potential value capture. If ratios are not reduced, the potential for value capture is much less. This preliminary analysis shows the most value capture potential in Alternative B, with potential for tens of millions of dollars of additional value capture beyond Alternative A, primarily from non-residential development.

**A range of potential Community Benefits Strategies** that are relevant to the project and achieving the City's priority benefits are included in Section 5.3 and described below.

- **TIF.** Tax Increment Financing (TIF) is a common tool in other states that was recently authorized by state legislation for the first time in Washington. TIF allows a jurisdiction to capture the future value of public investments and catalyze growth, by designating a geographic area in which public investment is needed and issuing bonds against a likely increase in assessed values catalyzed by those investments. This tool is now available in Washington and is a good opportunity for the Station Area. Improvements that are the best fit for a TIF are ones that are unlikely to happen through typical CIP, critical to make desired development possible, and ideally can provide multiple benefits. This analysis has identified multi-benefit projects, parks, public realm, and mobility as the community benefits that would be the best candidates for a TIF. Based on the assumptions in this study, a preliminary estimate of potential TIF revenues under HB 1189 suggests that TIF may be able to support between \$50 to \$75 million (2021 \$ assuming 25 years of revenues discounted at 3.5%) in debt for infrastructure projects.
- **Commercial Linkage Fees.** Linkage fees “link” new development with the increased demand for affordable housing. These fees are typically charged to developers based on a per square foot fee established for specific uses like commercial or retail. Fees as set are based on a nexus study that demonstrates the rationale and relationship between the development and the fee that is charged. The RLV analysis indicates that a Commercial Linkage program for the Station Area has merit and while there are many factors that would influence revenue potential, there may be potential to generate in the range of \$10-\$50M should all the allowed development capacity for non-residential growth represented in June Alternative B be built within the 23-year planning horizon. The potential for value capture is highly dependent on reduced parking ratios as noted above. The City should consider a workforce development component of a potential linkage program which would allocate a portion of the fees collected toward workforce development programs to help to address the jobs/housing imbalance. More analysis through a nexus study would be required to better evaluate potential policies and establish a linkage program.
- **Density Bonus and Baseline Requirements.** Density bonus programs, also known as incentive zoning programs, allow additional development in exchange for the developer providing community benefits. Under a typical density bonus program, new zoning establishes a base development allowance in each zone. Certain zones are eligible for an additional increase in development up to a maximum development amount. In exchange for this additional development, the developer provides public benefits through fee-in-lieu or direct provision of the amenity. Based on the current

understanding of the City’s priorities and objectives, a menu or points-based system is recommended for its ability to accomplish several goals through a single program and provide flexibility for developers to incent participation. Section 5.3.3 provides a potential structure of base requirements and bonus incentives for consideration. A part of this consideration should include potential modifications to existing policies as baseline standards are established.

- **Partnership opportunities** can advance priority community benefits through program alignment or potential co-benefits. Possible topics that should be explored include Shared Use of community facilities and public open space, integrated early education and childcare facilities, workforce development and green infrastructure programs, as well as sustainability, climate action, and health and well-being initiatives.

**Section 6.0 Summary of Findings and Recommendations** notes that the City must make significant capital investment under June Alternative A if the area develops under current trends. This Alternative does not generate much development contribution to required infrastructure. June Alternative B: Transit-Connected Growth, however, creates an opportunity for the City to efficiently serve concentrated growth and more tools to make investments in public infrastructure and City operations.

To manage Alternative B successfully, the City will have to recognize that a variety of strategies will be required to balance the City’s overall budget and Station Area needs.

Based on the results of this analysis, which were all conducted based on existing City policies, the following recommendations are proposed as a framework for realizing fiscally sustainable infrastructure and services provision and the desired community benefits in the Study Area. These include a combination of existing policies and new policy changes that the City should consider as part of developing a preferred Plan Direction for the Station Area.

**Potential Infrastructure-specific Financing and Community Benefit Strategies for June Alternative B.**

- **Public Infrastructure and Services**
  - **Stormwater.** The City can use stormwater capital fund reserves to fill the \$700,000 gap between the available stormwater facility charges and the infrastructure improvement cost in 2035.
  - **Water.** The City can issue a \$10 million 20-year bond to cover the cost of the improvement and maintain an annual surplus. A bond of that amount and length is anticipated to result in annual debt payments of \$685,000. Projected capital facility charge revenue and 7% of net new water utility revenue from growth in the Station Area are projected to be enough to cover the annual debt payments.
  - **Sewer.** The City can fund sewer improvements with a combination of debt issuance and rate increases. Issuing a \$60 million 30-year bond in 2035, resulting in \$3.1 million annual debt payments, would cover the cost of needed sewer infrastructure improvements. To make annual debt payments, a rate increase on the overall base would be required, because there is not enough sewer capital facility charges or new sewer rate revenue from the Station Area to cover the payments. Because this investment is also required in Alternative A, where there are less dedicated revenues available to offset costs resulting in a larger City deficit, Alternative A requires a larger rate increase than Alternative B.



## ■ **Community Facilities and Benefits**

- **Parks.** A mix of strategies will be needed to address parks capital needs, those to consider include:
  - Partially offsetting deficit with a portion of the the \$80.0 million remaining in general government operating surplus. This strategy alone will not address parks capital needs.
  - Alternative non-acreage derived LOS guidelines more appropriate for urban centers, such as shifting the standards to geographic equity of park access within walking distance and inclusion of school facilities and non-City parks.
  - Leveraging public assets and partnerships.
  - Identifying Community Park options.
  - Leveraging development requirements and development bonuses which show potential to provide publicly accessible smaller scale open spaces and trail connections including in-building or rooftop urban park amenities.
- **Affordable housing.** A commercial linkage program is the primary new strategy recommended to maximize affordable housing objectives, which would go beyond the City’s existing Inclusionary Zoning requirements for residential development. The Residual Land Value analysis determined that a Commercial Linkage Program has merit, with greatest potential for value capture for commercial development, and increasing value potential in 10+ story development compared with 5-9 story development. Mid-rise residential is not feasible everywhere in the near term, and additional affordability requirements or other value capture costs may delay development, which could result in less housing production subject to the inclusionary requirements. If the City did want to pursue increasing the existing Inclusionary Zoning requirements for affordable housing, it would be important to monitor how the policy change influences production. Supporting workforce development programs may help to address the current jobs/housing imbalance within the Station Area.
- **Mobility.** Identify and prioritize multi-benefit project opportunities and consider them as part of a TIF strategy, especially right-of-way projects where mobility and infrastructure needs overlap. The City should consider the following baseline or incentive-based changes within the Station Area as described in the Transportation Supplemental Study, Appendix 1: parking ratio reductions, unbundled and paid parking, requirements for large employers or multi-family properties to provide transit pass subsidies, managed parking strategies, Transportation Network Company (TNC) ridesharing programs, bikeshare or micro mobility programs, and shared off-street parking.
- **Sustainability.** Baseline requirements and density bonuses are the recommended strategies to achieve sustainability features and performance within the Station Area. The City should consider how these goals would fit into a menu-approach and which levels of performance or features are desirable as baseline requirements or as density bonus incentives, and any needed policy adjustments to support this. They should also explore the potential for partnerships around sustainability, climate action, health and well-being initiatives.

- **Schools.** Under either Alternative, the City will need to help the Lake Washington School District solve for additional school population. Initial estimates are that school capacity will need to increase by 153 students under Alternative A and 936 students under Alternative B. In addition, the community as well as Lake Washington School District have articulated an existing and growing need for childcare and early learning and education facilities. Although the fiscal impact analysis did not estimate costs for Lake Washington School District, as they are a separate governmental entity from the City, the analysis did estimate anticipated revenues from school impact fees. It is estimated that there will be \$24.6 million in school impact fee revenue available for school capital needs in Alternative B. ECONorthwest estimated that if the LWSD Capital Levy currently scheduled to expire in 2022 were to be extended throughout the life of this study period it could raise as much as \$53.9 million in the Station Area. Potential community benefit strategies include:
  - In land-constrained locations like the Study Area, consider requirements or development bonuses for developments to provide space on-site. This can include educational and childcare space integrated into the development (most common for early learning, pre-K and specialized programs like STEM) or by setting aside land for future school development.
  - Consider policy changes to define active frontages or required retail space to include educational, childcare, and community-serving spaces in order to implement a Development Bonus strategy.
  - Explore partnership opportunities to align programs, such as Joint/Shared Use Agreements that broaden access to community-serving facilities.
  - Consider increasing allowed development capacity on existing underutilized public parcels to support future development of new school space.

### Recommended Next Steps

- A **Public Infrastructure and Services Investment Framework** will be critical to catalyze transit-connected development and can help support coordination and implementation of various strategies.
  - Identify **baseline requirements** for project-level infrastructure and contributions to the Station Area. Potential for value capture will be related to some policy changes, including reduced parking ratios and unbundling, modifying parks LOS methodologies to move toward geographic equity and inclusion of shared use facilities. **Next step:** Coordinate a comprehensive scan of existing and potential policy changes together with a Density Bonus Program. Base development standards should be calibrated so that all development is held to an acceptable minimum standard of public benefit provision through other strategies like mandatory impact fees and design standards.
  - Use a **TIF District** to finance large, area-wide investments like streetscape improvements, major park, and potentially support additional school capacity and other infrastructure needs. **Next steps:** Conduct a TIF analysis, testing scenarios for TIF boundaries and projected revenues over time including development feasibility, identify target improvements. A Phase 1. TIF Strategy that looks at the TIF area, potential revenue, and eligible projects would cost about \$20k and

take about three months. This should be paired project feasibility and conceptual study could range from \$40-70k depending on the number and extent of candidate projects. A Phase 2. TIF Implementation Study would create the district itself, and cost about \$40k over six to nine months. This will rely on supporting 30% design/engineering of TIF projects, and the costs and timeframe for this work is highly dependent on which projects are selected.

- A **Community Benefits Policy Framework** can then support community benefits provisions through coordination and implementation of various strategies.
  - Establish and confirm **baseline requirements** for affordable housing by maintaining existing inclusionary zoning, and consider sustainability measures, active frontages, and public realm improvements. Base development standards should be calibrated so that all development is held to an acceptable minimum standard of public benefit provision through other strategies like mandatory impact fees and design standards.
  - Identify **partnership opportunities** to advance priority community benefits through program alignment or potential co-benefits. **Next steps:** The project team could create a partnership opportunities inventory and the City could use this as a base to conduct outreach to potential stakeholders on topics including the possibilities of Shared Use of community facilities and open space, integrated early education facilities, workforce development and green infrastructure programs. This work could be documented in the Final Station Area Plan.
  - Develop a **Density Bonus Program** that can capture the value of more density for the community, particularly considering smaller publicly accessible open spaces, on-site educational and community facilities, advanced Transportation Demand Management (TDM) /Mobility measures, and additional sustainability measures. **Next steps:** Conduct a comprehensive scan of existing and potential policies together to establish base/bonus development allowances for zoning and develop a points-based system of benefits. Bonus allowances should be calibrated so they create a sufficient incentive to attract participation from developers. Coordinate with Lake Washington School District regarding a potential incentive program for development to provide integrated educational spaces within projects. Defining base and bonus entitlements could occur within the Form Based Code development during later stages of planning. Either the City or a consultant could complete supplemental work to develop the points-based system that would implement these standards. For a consultant, it may cost about \$50k and could take about three months.
  - Implement a mandatory **Commercial Linkage Fee** to address affordable housing and workforce development, leaving room for the density bonus system. This should work in partnership with other affordable housing strategies like the City’s existing inclusionary zoning policies and state MFTE program. **Next step:** Complete a nexus study to determine fees and consider workforce development allocation. A nexus study would cost \$50-60k and would take from six to nine months, depending on how the City wants to engage with key stakeholders.

# 1.0 Introduction

## 1.1 Project Context and Focus of this Supplemental Study

The Northeast 85th St Station Area Plan (SAP) was commissioned to develop a long-term vision and plan to guide development and investment in the Study Area surrounding a future BRT Station at NE 85th St and I-405.

*The City's vision for the Station Area is a thriving, new walkable urban center with plentiful affordable housing, jobs, sustainable development, and shops and restaurants linked by transit.* Objectives of the 85<sup>th</sup> Station Area Plan include:

- Leverage the WSDOT/Sound Transit I-405 and NE 85<sup>th</sup> St Interchange and Inline Stride BRT station regional investment.
- Maximize transit-oriented development and create the most:
  - **Opportunity** for an inclusive, diverse, and welcoming community.
  - **Value** for the City of Kirkland.
  - **Community Benefits** including affordable housing and employment.
  - **Quality of life** for people who live, work, and visit Kirkland.

The SAP project has completed the Vision and Concepts planning phases as well as developing Alternatives up to the Draft Supplemental Environmental Impact Statement (DSEIS) stage. Prior to confirming a Preferred Direction in early 2021, the City Council and Planning Commission requested supplemental information beyond the DSEIS impact analysis to understand the potential community benefits, tradeoffs, and fiscal impacts of different Alternatives. This Supplemental Study is designed to help Council understand the practical implications of the options that are being considered – both the fiscal impacts to the City, and the likely community benefits that could result from new development over the next 23 years as a result of planning changes.

This Supplemental Study is intended to inform the Preferred Plan Direction decision that will become the basis for the Station Area plan, form-based code, and planned action ordinance. This remaining SAP scope, including the Draft and Final Plan, will resume after the Supplemental Study is complete. It is a long-range, planning level study and is not intended to plan for or represent specific, project-level configurations. As this is intended to support an area plan, differences between the assumptions of this long-range study and more near-term individual development and project decisions are expected.

## 1.2 Structure of this Document

This Supplemental Study is structured as described below and designed to answer the following key questions:

- **Section 2.0 Growth Analysis: June Alternatives for Study** describes the major assumptions underlying this analysis, including planning assumptions and infrastructure investment assumptions.

- *If the City were to implement its vision of the Station Area, how many jobs and housing units would be created?*
- **Section 3.0 Infrastructure Investment** answers the question:
  - *What infrastructure investments would be necessary to support this growth?*
- **Section 4.0 Fiscal Impacts Analysis** presents the projected fiscal impacts of June Alternatives A and B and addresses the impact to City finances:
  - *Can the City afford the investments necessary to address increased demand on public services, especially schools, parks/open spaces, transportation, and utilities, and avoid a reduction in service for existing community members and businesses?*
- **Section 5.0 Community Benefits Analysis** describes the potential for community benefits:
  - *How can the public receive benefits of growth?*
  - *How can development increase affordable housing, open space, transit/bike/walk connections, and sustainability?*
- **Section 6.0 Summary of Findings** and concludes this Supplemental Study by summarizing recommendations.

**Note:** Figures in this document are presented in year of expenditure dollars (YOE\$) – meaning that revenues and costs are adjusted for inflation from present time (2021) to the expected year of collection or expenditure, respectively - unless otherwise noted.



## 2.0 Growth Analysis: June Alternatives for Study

As the basis of this Supplemental Study, two “June Alternatives” were established based on public comment and community feedback, as well as guidance from the City Council and Planning Commission. These June Alternatives narrow the range of Alternatives studied in the DSEIS by removing DSEIS Alternative 3 from further consideration and adjusting DSEIS Alternatives 1 and 2 for study. These adjusted Alternatives are defined as June Alternative A and June Alternative B:

- **June Alternative A: Current Trends.** June Alternative A: Current Trends (Illustrated in Exhibit 2-1) is based on the starting point of DSEIS Alternative 1: No Action. A ‘No Action’ Alternative showing growth in line with Kirkland’s Comprehensive Plan is a requirement of the State Environmental Policy Act (SEPA) process. For June Alternative A: Current Trends, the growth targets were adjusted upward from DSEIS Alternative 1 because growth in the past six years has outpaced the assumptions in the 2015 Comprehensive Plan.

June Alternative A: Current Trends maintains existing zoning heights throughout the district and slightly adjusts the assumed 2044 growth projections to reflect current market trends, showing more jobs, and only slightly more housing than DSEIS Alternative 1. In June Alternative A: Current Trends, these additional jobs were studied in portions of the Study Area currently zoned for development up to 67’ in height in zones RH-1A, RH-2A, and RH-2B. Areas within the district currently zoned for single family or other low density residential area maintained their current zoning.

- **June Alternative B: Transit Connected Growth.** June Alternative B: Transit Connected Growth (Illustrated in Exhibit 2-2) is aligned with the overall Station Area Plan growth framework in the Station Area Initial Concepts (Exhibit 2-3) and incorporates elements shown in the commercial corridors of DSEIS Alternative 3 into the overall land use pattern established in DSEIS Alternative 2. The intent of this strategy is to:
  - Optimize for workforce and affordable housing, in particular the number of units provided through linkage fees and/or inclusionary zoning.
  - Attract new jobs to foster economic activity and meet citywide targets.
  - Balance the distribution of commercial-focused development across the Study Area.
  - Foster an environmentally sound land use pattern that helps achieve the City’s sustainability goals.

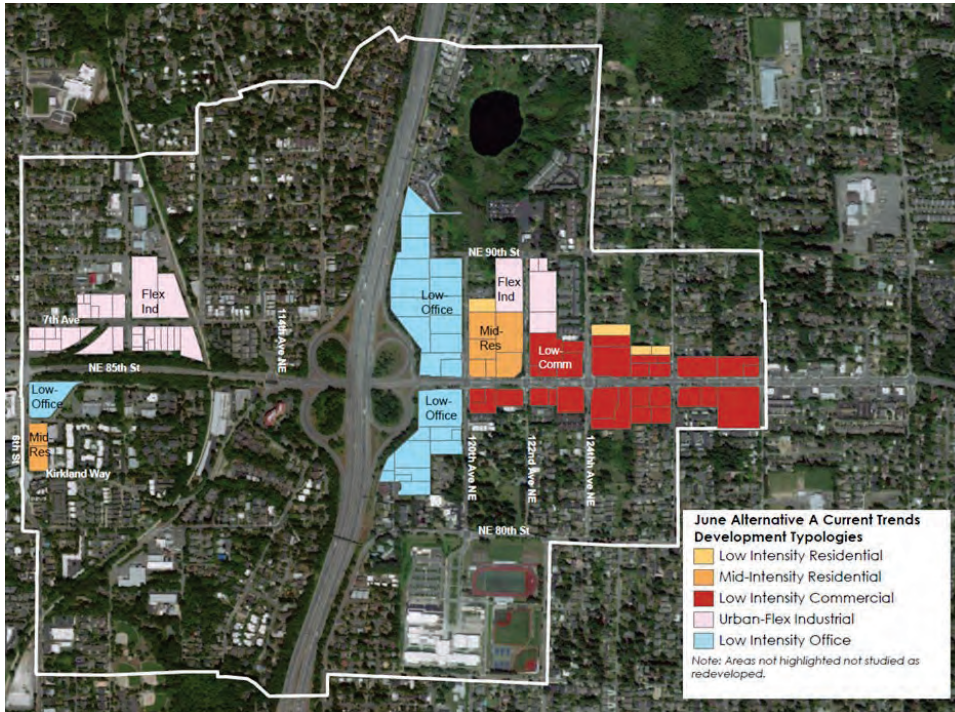
June Alternative B: Transit Connected Growth responds to the public comment heard during the DSEIS comment period and the May 26, 2021 Council Listening Session. Although a wide range of comments were shared, many participants reiterated a desire to maintain existing residential character, and concerns regarding the maximum allowable zoning heights proposed in DSEIS Alternative 3.

- June Alternative B: Transit Connected Growth only studies increased allowable heights in areas that provide clear benefits to the community and take advantage of regional transit connections. To that

end, several areas where height increases had been proposed as part of DSEIS Alternative 2 and 3 have been removed from consideration in June Alternative B: Transit Connected Growth. These include areas that are unlikely to redevelop due to market forces, are limited by development feasibility, or are constrained by other factors. June Alternative B: Transit Connected Growth results in similar household growth numbers as DSEIS Alternative 2, but lower employment numbers, showing more of a jobs-housing balance. The Southwest Quadrant of the Study Area has lower growth numbers, closer to what was proposed for DSEIS Alternative 1. Transportation analysis, presented in Section 2.2 of this report, describes analysis that was completed to support the narrowing of Alternatives and better understand how the mix and level of growth could be adjusted to reduce the impacts modeled in DSEIS Alternative 2.

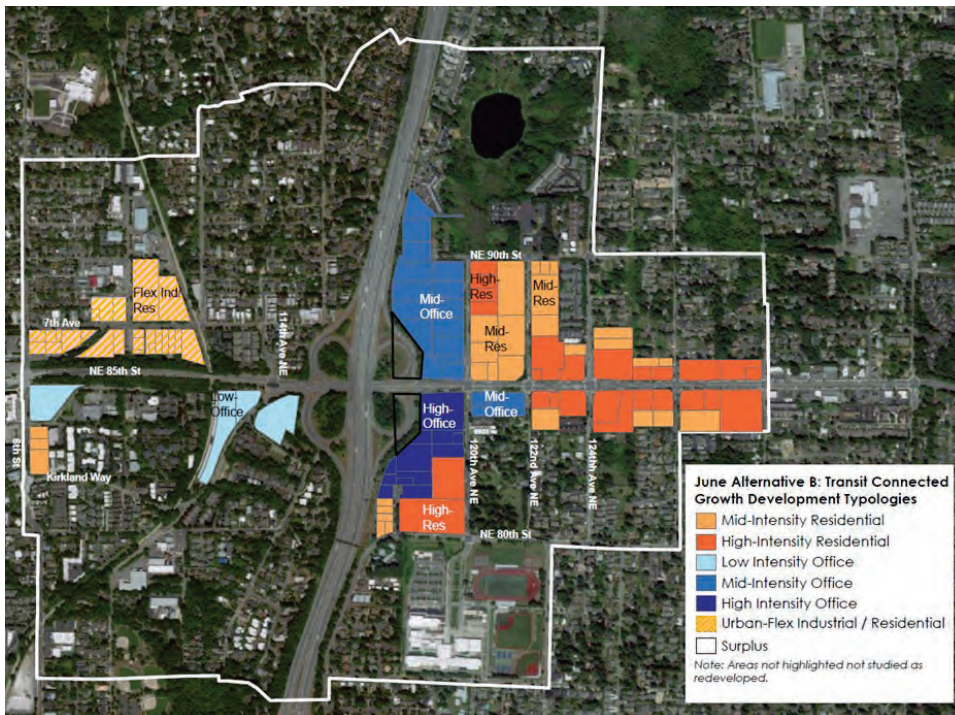
- In alignment with the Station Area Initial Concepts Growth Framework, June Alternative B includes a few areas of greater capacity for change as compared to existing conditions. These are focused around the BRT node and the Cross-Kirkland Corridor, including two areas in Rose Hill nearest to the future BRT station: the mid-rise office designation in the northeast quadrant and the high-intensity office designation in the southeast quadrant; and the flex industrial – residential capacity in the Norkirk LIT area in the northwest quadrant. Because of this greater capacity for change, these areas receive greater study in some sections of this report regarding fiscal impacts and potential for community benefits. Throughout this report, these areas will be referred to as SE Commercial Area or Lee Johnson Site, NE Commercial Area or Costco Site, and Norkirk Area, respectively. In some appendices and references where the terminology Lee Johnson Site and Costco Site may appear, it is important to note that, in all cases, the analysis reflects a hypothetical assumption of the total allowed development in the June Alternatives and is not meant to presuppose decision-making by private landowners or the actions of the market. References to the current ownership have been included to assist the reader in identifying the locations that were evaluated.

**Exhibit 2-1. June Alternative A: Current Trends – Development Typologies**



Sources: Mithun, BERK, 2021.

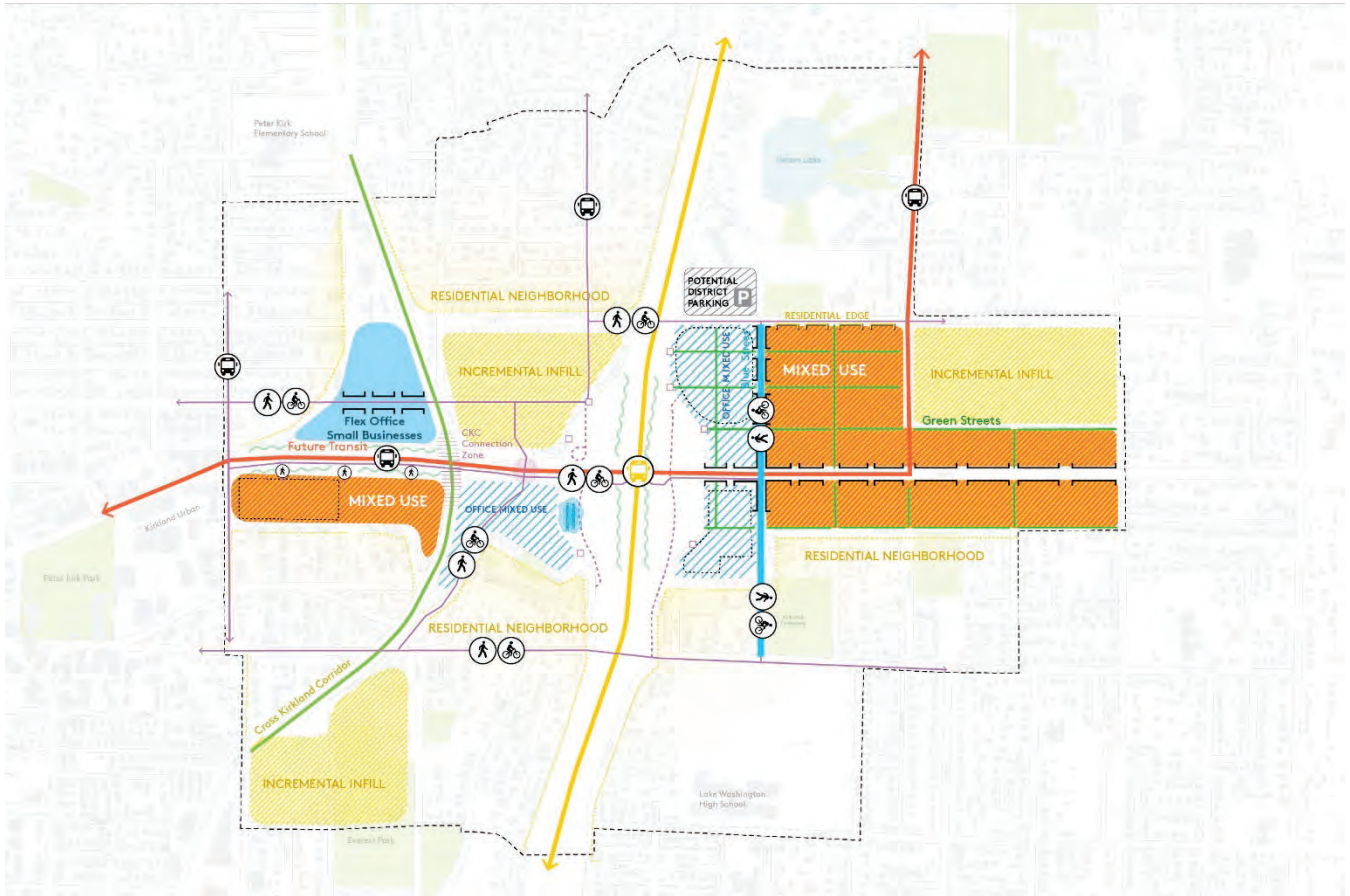
**Exhibit 2-2. June Alternative B: Transit Connected Growth- Development Typologies**



Sources: Mithun, BERK, 2021.



### Exhibit 2-3. Station Area Initial Concepts



Source: Mithun, 2020.

## 2.1 Summary of Employment and Residential Capacity in June Alternatives

As shown in Exhibit 2-5, either June Alternatives represents significant growth of employment and population in the Station Area. This capacity for additional jobs and housing is a substantial community benefit by itself, contributing to City of Kirkland goals for job creation in the Greater Downtown and near transit hubs, and housing options.

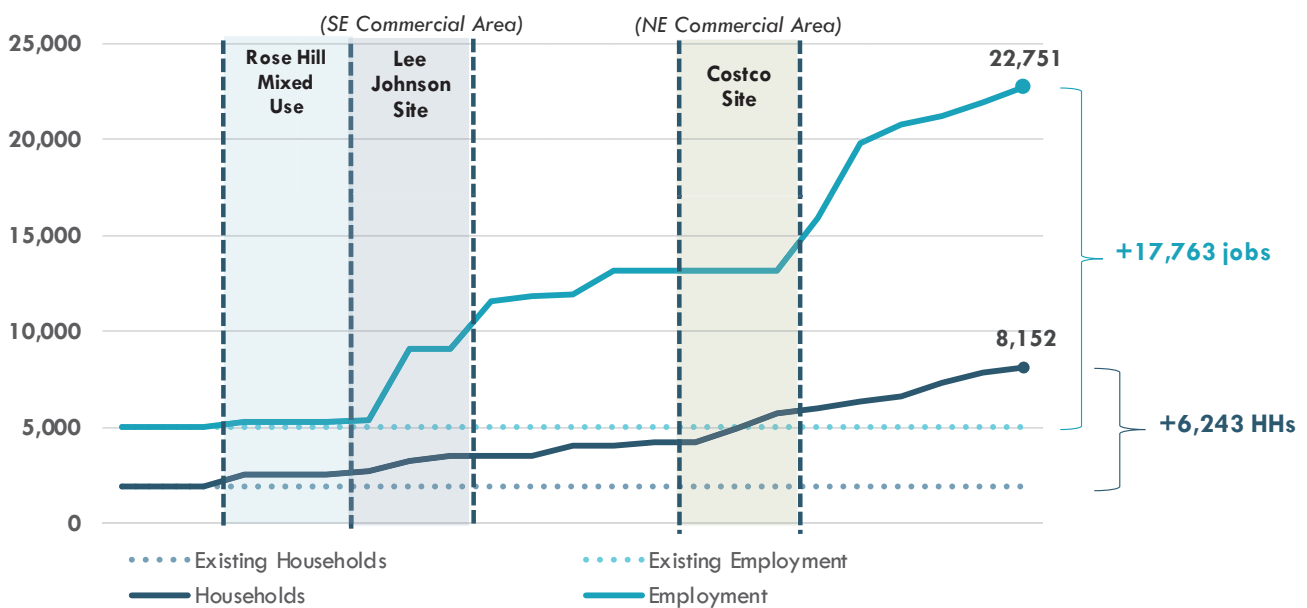
**Exhibit 2-4. Employment and Household Totals Assumed in June Alternatives and DSEIS.**

	DSEIS No Action	June Alternative A	June Alternative B	DSEIS Alternative 2	DSEIS Alternative 3
Households	2,782	2,929	8,152	8,509	10,909
Employment	10,859	12,317	22,751	28,688	34,988

Sources: Mithun, ECONorthwest, BERK, 2021.

Exhibit 2-5 illustrates this growth over time for Alternative B that was utilized for the fiscal analysis. Assumptions about parcel- and quadrant-level development phasing are hypothetical and not meant to presuppose decision-making by private landowners or the actions of the market. A phased development scenario was developed by City and consultant staff as a necessary input for fiscal impact modeling and consideration of potential community benefits. The actual timing of redevelopment projects is likely to differ somewhat from what was modeled.

**Exhibit 2-5. Employment and Residential Growth in June Alternative B.**



Note: Assumptions about parcel- and quadrant-level development phasing are hypothetical and not meant to presuppose decision-making by private landowners or the actions of the market.

Sources: City of Kirkland, Mithun, ECONorthwest, BERK, 2021.



## 2.2 Summary of Transportation Analysis of June Alternatives

The City engaged Fehr & Peers to provide supplemental information to support this study, including travel demand modeling and forecasting to better understand implications of the growth in June Alternatives A and B. The **Supplemental Transportation Memo, Appendix 1**, is available for review [here](#). The Bellevue-Kirkland-Redmond (BKR) travel demand model was used as an analytic basis. Prior to the modeling process, MXD+, a trip generation tool that accounts for the variation in land use type and density, provided estimates of new vehicle trips for future Alternatives. The results, shown in Exhibit 2-6, estimated mode share of single occupancy vehicles (SOV), carpool, and transit for each quadrant under each Alternative, which were used to calibrate the BKR model. Additional adjustments were made to the BKR model for adequate distribution of trips, especially for the high intensity commercial area in the southeast quadrant of June Alternative B.

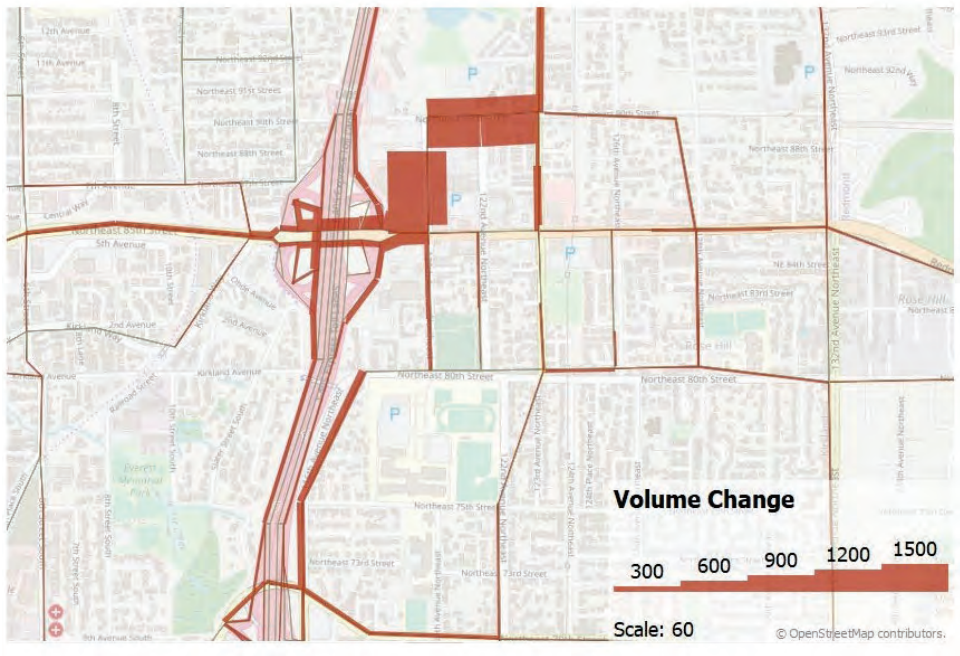
**Exhibit 2-6. PM Peak Hour Vehicle Trip Generation using MXD+/BKR Model Mode Share Estimates**

Quadrants	2035 DSEIS Alt. 1	2044 June Alt. A	2044 June Alt. B	2044 DSEIS Alt. 2
NW	930	930	1,280	1,000
NE	3,850	4,480	4,920	10,110
SW	1,910	1,850	2,360	2,190
SE	3,630	3,880	7,580	4,300
<b>Total</b>	<b>10,320</b>	<b>11,140</b>	<b>16,140</b>	<b>17,600</b>
Mode Share Estimates (SOV/Carpool/Transit)	70%/23%/7%	70%/22%/8%	71%/21%/8%	72%/21%/7%

Source: Fehr & Peers, 2021

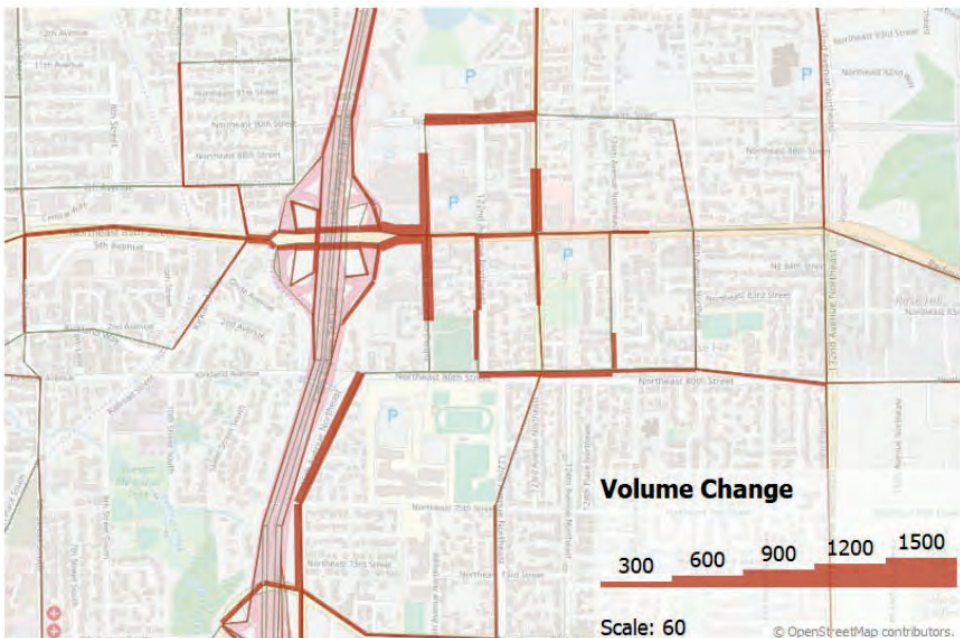
Consistent with land use trends, June Alternative A includes modest growth in vehicle trips in the NE and SE quadrants. The total vehicle trips generated by June Alternative B and DSEIS Alternative 2 are similar; however, there is a substantial shift in which quadrants are likely to receive the most potential land use growth (from NE to SE). Exhibit 2-7 and Exhibit 2-8 show the modeled increase in roadway volumes. June Alternative B features a more even distribution of trips than DSEIS Alternative 2.

**Exhibit 2-7. Traffic Volume Increase (2035 No Action vs. 2044 Alternative 2)**



Source: Fehr and Peers, 2021.

**Exhibit 2-8. Traffic Volume Increase (2035 No Action vs. 2044 Alternative B)**



Source: Fehr and Peers, 2021.

Traffic volume forecasts from the refined versions of the BKR model were then used to evaluate traffic operations at eight intersections in the Station Area. Each of the intersections were analyzed for their operational performance under existing (2019) conditions, as well as three future year (2044) Alternatives, both June Alternatives A and B, and DSEIS as well as Alternative 2 were modeled for the

year 2044. Intersection performance is described based on Level of Service (LOS) is a standard measure used to describe traffic operations from the driver's perspective. LOS is defined by intersection delay in seconds and ranges from LOS A with no congestion and little delay to LOS F with substantial congestion and delay. Traffic operations were analyzed using the Synchro 10 software package and Highway Capacity Manual (HCM) 6th Edition methodology.

### Findings

The results are summarized in Exhibit 2-9, below. Key findings were used as a basis of understanding implications of the mix, type, and location of growth in June Alternatives A and B.

- All study intersections are currently operating within the City's or WSDOT's standards.
- Under June Alternative A, which represents current growth trends continuing through 2044, the following intersections would fail to meet adopted LOS standards:
  - NE 90th Street & 124th Avenue NE: this intersection would operate at LOS F due to land use growth anticipated in the NE quadrant and the lack of streets connecting north of NE 90th Street.
  - NE 85th Street & 6th Street: this intersection will operate at LOS F under all future year Alternatives due to planned modifications to better accommodate transit, walking, and biking modes.
- Alternative B considered two transportation scenarios for the southeast quadrant, with allowed development at 250 feet maximum height:
  - The first assumes only one general access driveway to the SE Commercial Area site via NE 83rd Street to a signalized intersection with 120th Avenue NE.
  - The second scenario considers the same access as above, plus an additional south access to the site along 118th Avenue NE, which would connect to 80th Street NE with a newly signalized intersection.
  - The reconfiguration of land use growth in June Alternative B would substantially improve intersection operations relative to DSEIS Alternative 2. However, the land use growth envisioned by this Alternative would increase vehicle trips on the roadway network (compared to existing conditions or Alternative A/No Action scenario) such that the following intersections would not meet adopted LOS standards under Alternative B:
    - NE 85th Street & 6th Street: this intersection will operate at LOS under all future year Alternatives due to planned modifications to better accommodate transit, walking, and biking modes. Moreover, additional growth throughout the SAP would result in higher delays than are anticipated for Alternative A.
    - NE 85th Street & 120th Avenue NE: this intersection could not meet City standards without mitigation, as this is the main access point for growth in the SE quadrant.
    - NE 90th Street & 124th Avenue NE: this intersection could not meet City standards without mitigation, as this is the main access point for growth in the NE quadrant.

- NE 83rd Avenue & 120th Avenue NE: under the scenario in which this intersection serves as the only general access to the SE Commercial Area, it will require signalization (as assumed) as well as additional lanes.
  - NE 80th Street & 120th Avenue NE: under the scenario in which only one general access is provided to the SE Commercial Area along NE 83rd Avenue, increased traffic through this intersection would result in LOS F delays without mitigation.
  - 80th Street & 118th Avenue NE: similarly, under a single access point scenario to the SE Commercial Area, this intersection would also be impacted by additional traffic along 80th Street, although it is unclear whether a signal would be warranted to address the side street delay.
- A sensitivity test was conducted to determine whether the additional land use growth allowed under the 85th Station Area Plan would affect the operations at the redesigned interchange. The operations at the I-405/NE 85th St interchange were evaluated using the microsimulation traffic models developed by WSDOT for their interchange study. Two scenarios were tested, including 2044 June Alternative B and June Alternative B with transportation demand management (TDM) implementation, which resulted in 500 less peak hour trips in the network. As shown in Exhibit 2-10, the Station Area Plan will result in slightly higher delays and queuing along NE 85th St in the future than estimated by WSDOT in their interchange analysis. However, the increases do not significantly affect the operations of the interchange or the freeway mainline.
  - Representative project investments to mitigate Level of Service impacts are identified in the next section of this report.



**Exhibit 2-9. LOS Results for Evaluated Alternatives (without mitigation)**

ID	Intersection	LOS Standard	Peak Hour	2019 Existing	2044 June Alt. B	2044 June Alt. B 1: 2 Driveways	2044 June Alt. B 2: 1 Driveway	2044 DSEIS Alt. 2
1	NE 90th Street & 124th Avenue NE	D	PM	C / 21	F / 83	F / 158	F / 158	F / 380
2	NE 85th Street & 6th Street	E	PM	D / 41	F/109^	F / 145^	F / 145^	F / 138^
3	NE 85th Street & 120th Avenue NE	D	AM PM	C / 22 C / 21	C / 24 D / 39	F/ 114 F/ 113	F/ 114 F/ 113	F / 572 F / 616
4	NE 85th Street & 124th Avenue NE	D	AM PM	C / 29 D / 35	C / 33 D / 41	D / 39 D / 45	D / 39 D / 45	D / 35 E / 59
5	NE 83rd Street & 120th Avenue NE	D	PM	B / 11	B / 13	B / 18*	B / 20**	A / 8*
6	NE 80th Street & 118th Avenue NE	D	PM	B / 15	C / 20	A / 8**	F / 94	A / 6**
7	NE 80th Street & 120th Avenue NE	E	PM	B / 11	B / 14	B / 13	F / 222	B / 20
8	NE 70th Street & 116th Avenue NE	E	PM	C / 28	D / 35	E / 75	E / 75	E / 67

Source: Fehr & Peers.

Notes:

^ Intersection reconfiguration with transit queue jump and dedicated WBR turn pocket

\* Signalized without any geometric improvements

\*\*Signalized with EBL, SBR turn pockets

**Exhibit 2-10. LOS and Average Control Delay**

Intersection	Control	2045 WSDOT	2044 June Alt. B	2044 June Alt. B w/ TDM
6 <sup>th</sup> St / NE 85 <sup>th</sup> St	Signal	E / 68 sec	F / 128 sec	D / 52 sec
Kirkland Way / NE 85 <sup>th</sup> St	Roundabout	C / 18 sec	F / 75 sec	E / 37 sec
120 <sup>th</sup> Ave NE / NE 85 <sup>th</sup> St	Signal	D / 39 sec	D / 54 sec	D / 52 sec
122 <sup>nd</sup> Ave NE / NE 85 <sup>th</sup> St	Signal	C / 28 sec	C / 33 sec	C / 27 sec
124 <sup>th</sup> Ave NE / NE 85 <sup>th</sup> St	Signal	F / 93 sec	F / 94 sec	E / 63 sec

Source: Fehr and Peers, 2021.

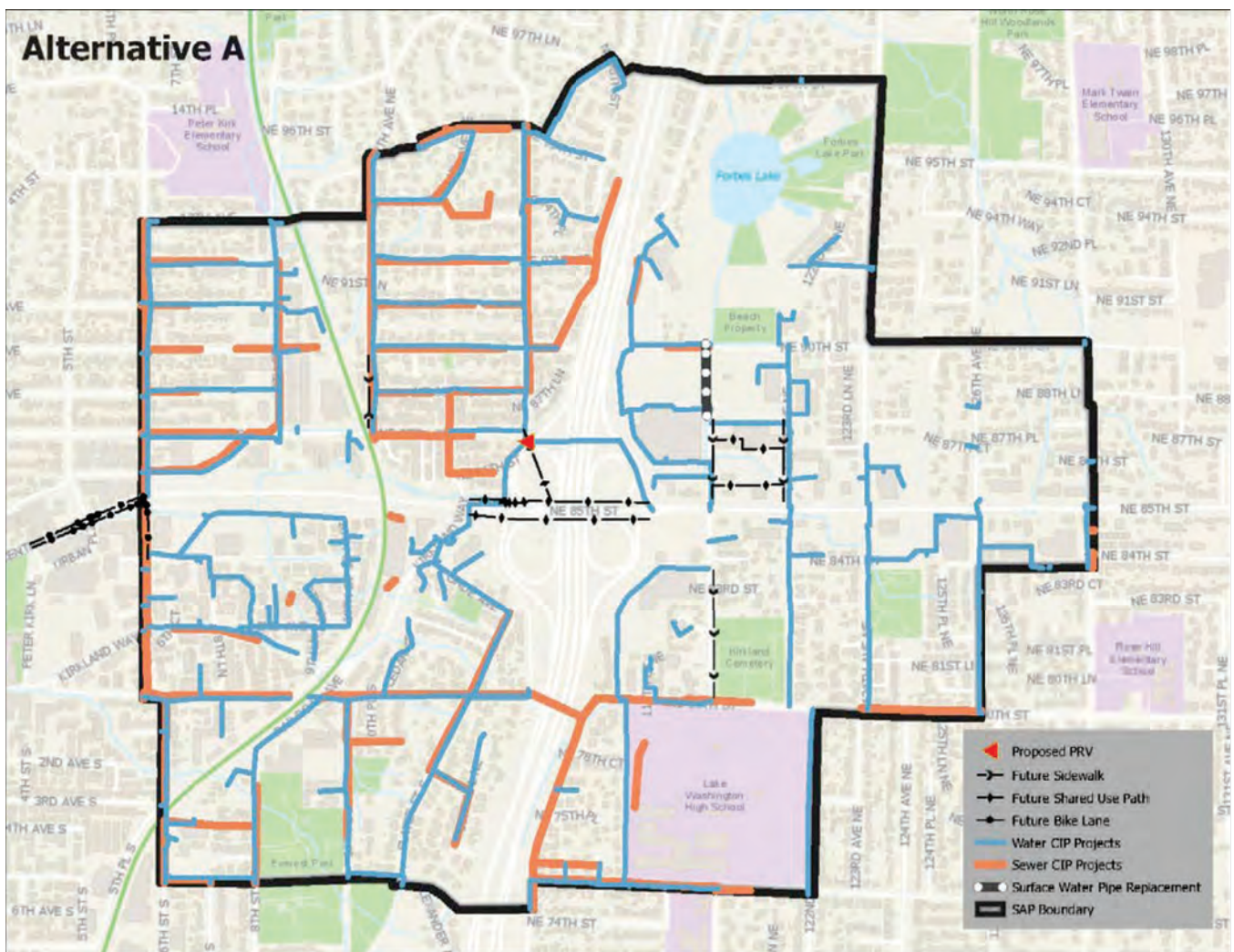


# 3.0 Infrastructure Investment Methodology

Planning level studies were conducted to determine a set of representative infrastructure investments needed to maintain service levels in transportation, water and sewer, and stormwater given the employment and household growth assumed for June Alternatives A and B. These studies were produced for development of conceptual cost estimates for fiscal modeling of the Station Area and are not intended to show a preferred plan or final project configurations, which will be developed in later stages of planning and are subject to City Council approval.

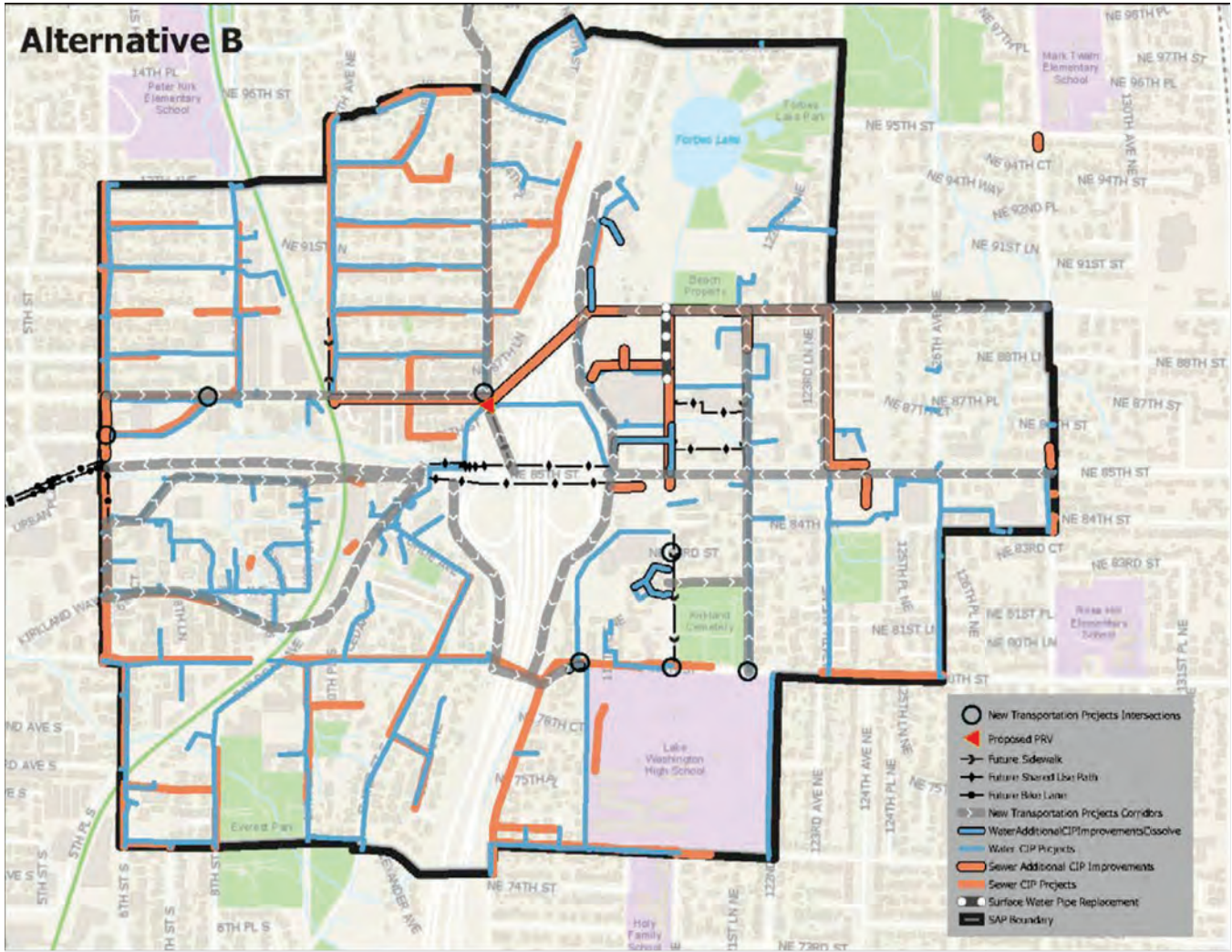
A map of representative infrastructure projects for June Alternative A is shown in Exhibit 3-1 and Exhibit 3-2 shows June Alternative B.

**Exhibit 3-1. June Alternative A – Representative Infrastructure Investments**



Source: City of Kirkland, 2021.

**Exhibit 3-2. June Alternative B – Representative Infrastructure Investments**



Source: City of Kirkland, 2021.



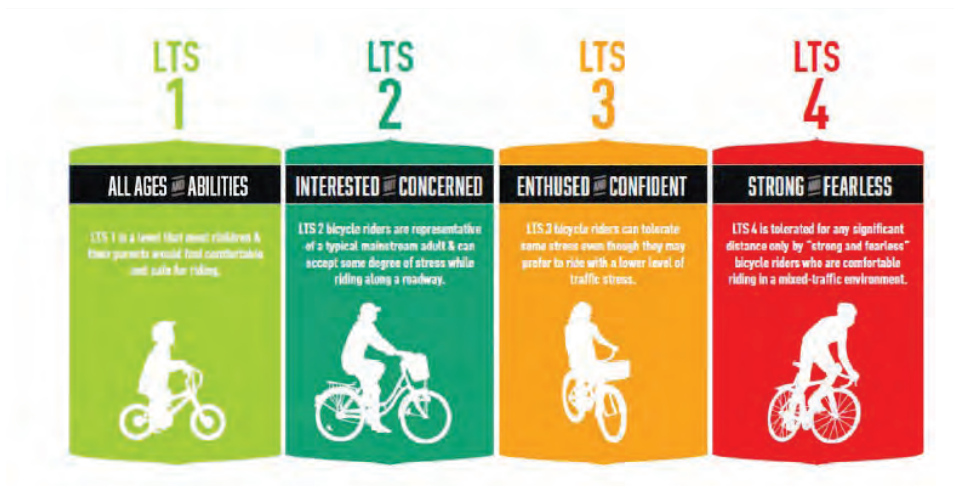
## 3.1 Transportation

In addition to the supplemental transportation analysis for the June Alternatives described in Section 2.2 of this report, the City engaged Fehr & Peers to identify a potential package of representative investment strategies to support full implementation of June Alternatives A and B. The **Supplemental Transportation Memo, Appendix 1**, is available for review [here](#). This section outlines these improvements identified for the purposes of modeling the fiscal impacts associated with each June Alternative. The project team was charged with identifying necessary infrastructure and supportive policies to achieve the following transportation objectives:

- Preserve the functionality of NE 85th Street, while enhancing and expanding its role as an urban, multimodal street.
- Incorporate transportation improvements that preserve community character, including minimizing significant changes such as road widening in areas outside of those intended for proposed growth.
- Accommodate transit effectively along NE 85th Street and other streets in the Study Area.
- Establish a low-stress priority bike and pedestrian network that serves the full Study Area.

The comfort of facilities for people walking and biking is measured quantitatively using a metric called “level of traffic stress.” This metric describes conditions on a scale of 1-4, with level 1 representing conditions that are comfortable for people of all ages and all abilities and level 4 representing conditions that are stressful for almost everyone, see Exhibit 3-3.

**Exhibit 3-3. Level of Traffic Stress Concept**



Under City staff direction, the Fehr & Peers team used travel modeling and traffic operations analysis, described in Section 2.2 Summary of Transportation Analysis of June Alternatives, to determine representative improvements including:

- Roadway geometric and operational changes.
- Implementation of a robust transportation demand management strategy.
- Transit access and speed and reliability considerations.
- System improvements to improve conditions for walking and biking.

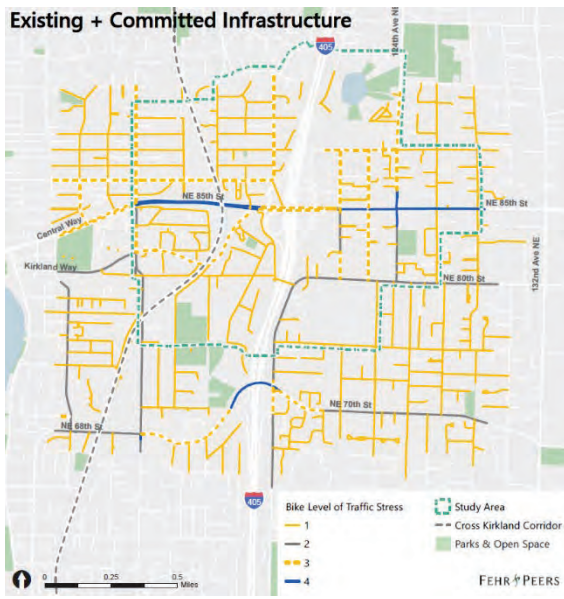
## Findings

- The City needs to make significant transportation improvements in either Alternative. In Alternative B, the largest City-funded representative improvements are:
  - Kirkland Way Complete Streets (an improvement which requires rebuilding of the Cross Kirkland Corridor bridge and is also assumed under Alternative A).
  - 124th Ave NE Roadway Widening to 5 Lanes, NE 85<sup>th</sup> St. to NE 90<sup>th</sup> St. (an improvement also assumed under Alternative A).
  - 90<sup>th</sup> St Complete Streets Improvements (two projects, both projects are also assumed under Alternative A).
  - NE 85<sup>th</sup> St. Shared Use Trail Improvements, 5<sup>th</sup> St. to Kirkland Way (an improvement that only takes place in Alternative B).
- This effort identifies a suite of transportation demand management (TDM) strategies that could be implemented by the City or required of developers over time within the SAP. Implementation of these strategies would not only help reduce driving, which in turn lessens traffic congestion and greenhouse gas impacts, but fundamentally align with the City's values and vision for the Station Area. TDM strategies identified include measures related to parking management, transit subsidies, and commute trip reduction programs, like Kirkland's Green Trips. Collectively, recommended strategies are estimated to reduce driving by 9% to 38%, with 13% serving as an estimate based on typical planning applications. It is recommended that these strategies be implemented as part of **Alternative B**. Implementation of TDM strategies would require investments by the City in several forms, including:
  - City staff time to develop code revisions and manage compliance, for example requiring developers to provide a transit subsidy to tenants.
  - Creation of new staff positions to implement and operate new programs, for example on street parking policing and management and off-street parking program implementation.
  - Capital investments, for example micro mobility charging stations.

These costs, both for initial start-up and ongoing program management, should be considered within the financial evaluation of the plan.

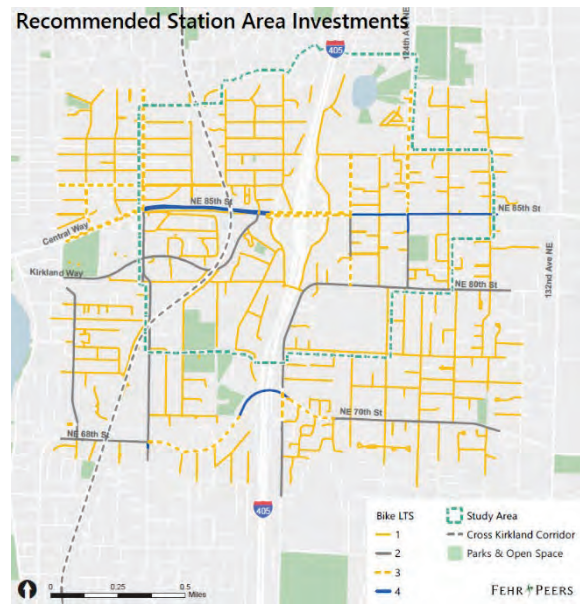
- Analysis of the comfort of facilities for people walking and biking in the Study Area with existing and committed transportation investments and how that could change with recommended investments for the SAP is illustrated below in Exhibit 3-4 and Exhibit 3-5.
- Analysis of how far people can comfortably walk or bike within 5, 10, and 15-minutes of the proposed station with existing and committed transportation investments and how that could change with recommended investments for the SAP is illustrated below in Exhibit 3-6 and Exhibit 3-7.

**Exhibit 3-4. Alt A Bike Level of Stress Network**



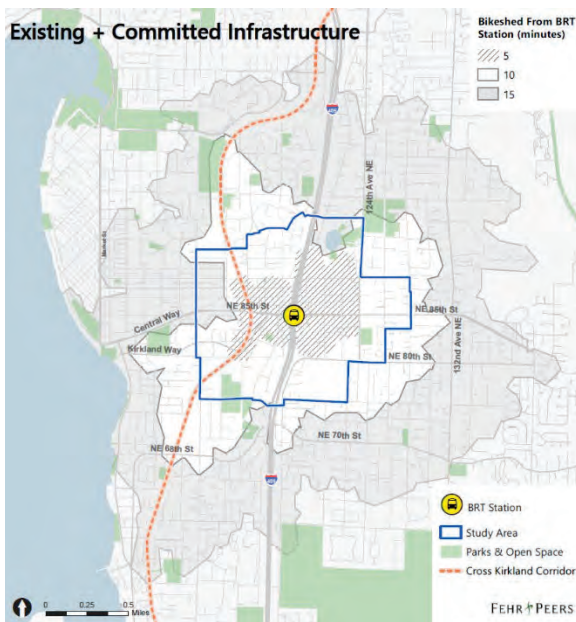
Source: Fehr and Peers, 2021.

**Exhibit 3-5. Alt B Bike Level of Stress Network**



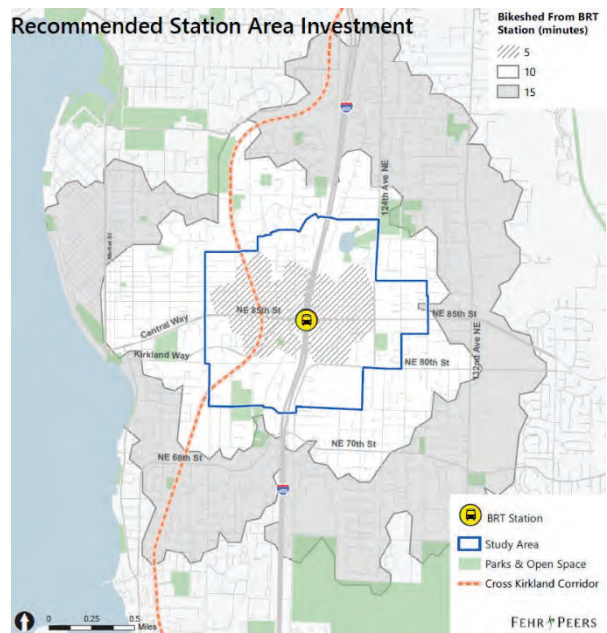
Source: Fehr and Peers, 2021.

**Exhibit 3-6. Alt A Potential Bikeshed from BRT Station**



Source: Fehr and Peers, 2021.

**Exhibit 3-7. Alt B Potential Bikeshed from BRT Station**



Source: Fehr and Peers, 2021.



Fehr and Peers considered three primary elements to understand potential change to transit conditions under the different land use alternatives: passenger loads, speed and reliability, and access-to-transit. Analysis of the future year action Alternatives, including DSEIS Alternative 2 as a point of comparison, on the transit passenger loads in the Study Area utilized the 2042 Sound Transit (ST) Model and bus crowding threshold guidance from King County (KC) Metro. A higher transit load factor indicates more crowded conditions. It should be noted that KC Metro’s bus crowding thresholds do not guarantee a seat for every rider on the bus. The thresholds account for an acceptable number of both seated and standing riders. Generally, passenger load factors should not exceed 1.25 for routes that run less than every 10 minutes, and should not exceed 1.5 for routes that run every 10 minutes or better.

Exhibit 3-8 indicates that all the reviewed action Alternatives further impact the I-405 BRT due to the new PM peak hour transit trips: transit ridership growth for these Alternatives exceeds 15%. To address the projected overcrowding of buses along the impacted routes, some riders may slightly shift their commute time to avoid the peak period or access their destination via different routes. Transit agencies also regularly monitor the passenger load factor and adjust scheduling to best accommodate ridership demand. An expanded safe bicycle network to additional areas within the city and region would also help alleviate transit overcrowding by providing alternatives to riding transit. While transit lane options including recommendations in the KTIP were reviewed, they were removed for further consideration because the transit lanes would provide limited speed and reliability benefits for the substantial cost while potentially constraining pedestrian access and limiting bus station location options.

**Exhibit 3-8. Impacted Transit Ridership**

Action Alternative	New PM Peak Hour Transit Trips in Station Area	Routes With Passenger Load Factors Above the Threshold	New PM Peak Hour Riders per Route	Passenger Load Factor <sup>^</sup>	Transit Ridership Growth
Alternative A	372	I-405 BRT North	11	1.16	15%
Alternative B	603	I-405 BRT North	18	1.25	24%
Alternative 2	669	Route 250	38	1.06	285%
		I-405 BRT North	20	1.28	26%

Source: Fehr & Peers, 2021

Notes:

<sup>^</sup> Passenger load factor is a ratio of anticipated ridership compared to KC Metro’s crowding threshold.

Transportation costs and resources are addressed further in:

- Section 4.5.1 Capital Revenues.
- Section 4.5.2 Capital Costs.
- Section 4.5.3 Capital Net Fiscal Impact (page 4-25): A comparison of City-funded transportation infrastructure costs and revenues.

## 3.2 Water and Sewer

The City contracted with RH2 to determine water and sewer system improvements required above and beyond the City’s existing Capital Improvement Programs (CIPs) to support the SAP development (June Alternative B). The **Supplemental Water and Sewer Memo, Appendix 2**, is available for review [here](#).

The RH2 team worked under City staff direction to determine representative water and sewer system improvements needed to support the following scenarios for development in the Station Area.

- Growth based on 2035 Comp Plan including the Rose Hill Mixed Use sites, which City staff has indicated is comparable to June Alternative A.
- June Alternative B.

All identified improvements were classified and phased based on the following.

- Those required to be constructed in conjunction with the Bus Rapid Transit (BRT) station.
- Those required to be constructed to support each of the service areas analyzed as part of the Fiscal Impacts analysis (SE Commercial Area, NE Commercial Area, and NE, NW, SE, SW quadrants).

### *Findings*

Under either scenario outlined above, additional water and sewer system improvements will be needed to meet expected growth in the Station Area beyond implementation of the City's existing CIPs as shown in the 2015 Water System Plan (WSP) and 2018 General Sewer Plan (GSP). This analysis was designed to update the existing CIPs in the 2015 WSP/2018 GSP based on updated expected growth projections, such as development of the Rose Hill Mixed Use sites, in the Station Area (i.e., June Alternative A). It is important to note that the City's CIP looks at project funding for a six-year window and that future projects are shown as unfunded until they are prioritized in the CIP window.

Additional improvements will be needed in June Alternative B, above and beyond those needed in June Alternative A, to meet projected growth given proposed zoning changes in the Station Area. Additional water and sewer system improvements are identified in these analyses as a representative list of projects that could serve the level of buildout described in June Alternative B:

- The water system would not be able to meet the rezoned fire flow requirements without additional improvements.
- The sewer system would not be able to meet the additional flows from the Station Area without additional improvements.

Notable water and sewer improvements needed include a water main under I-405 as required by WSDOT due to construction of the BRT station (needed in either June Alternative A or June Alternative B) as well as a sewer capacity project that crosses under I-405 to connect the King County transmission line under Cross Kirkland Corridor (needed in June Alternative B).

Water and sewer costs and resources are addressed further in:

- Section 4.5.1 Capital Revenues.
- Section 4.5.2 Capital Costs.
- Section 4.5.3 Capital Net Fiscal Impact (page 4-25 for water and page 4-27 for sewer): A comparison of City-funded water/sewer infrastructure costs and revenues.

### 3.3 Stormwater

The City engaged Robin Kirschbaum, Incorporated (RKI) to evaluate stormwater infrastructure needs associated with the SAP. The **Supplemental Stormwater Memo, Appendix 3**, is available for review [here](#). A high-level analysis was performed to determine potential flooding and conveyance capacity impacts to the stormwater main line along 120th Ave NE with various redevelopment scenarios. The study was limited to potential parcel-based improvements and did not address rights-of-way. It was determined that conditions in the June Alternatives would not have substantial impacts to the conveyance systems in basins in the western quadrants and eastern edge including portions of the northeast quadrant of the Station Area. Therefore, it did not analyze these areas. The three scenarios analyzed included:

1. A baseline condition with existing land cover.
2. A full 23-year build out condition which evaluated development in line with current zoning standards. City staff has indicated this scenario is comparable to June Alternative A.
3. A full 23-year built out June Alternative B condition which evaluated development in line with the Station Area Plan vision. This standard would allow an increase in lot coverage on certain parcels, therefore increasing impervious surface.

After determining the potential flooding locations for each developed scenario, stormwater mitigation options were evaluated to determine their effectiveness at reducing runoff along the stormwater main line. Mitigation options that were applied included stormwater conveyance system improvements (larger pipe diameters, or change in pipe material), and incorporation of detention facilities (vaults). In addition, “blue/green” streets (a combination of rain gardens and vault-type structures) were modeled as an additional conveyance mitigation option for parcel-improvement conditions under June Alternative B levels of growth.

#### *Findings*

1. **For either Alternative, development of the Study Area and any associated increases in impervious surface area will not have any negative downstream impacts.** This is due to current stormwater mitigation requirements that will require these parcels to install large detention systems (such as tanks and vaults) to reduce the flow off their development and help existing flooding issues, mitigating to forested conditions.
2. **Under either Alternative, the only recommended stormwater project within the Study Area consists of replacing 520 feet of pipe along 120th Ave NE with a smoother pipe material.** This will increase capacity through the stormwater main line, helping in all scenarios.
3. **Evaluation of Green/Blue Street stormwater infrastructure modeled within the Study Area showed it was not effective as an additive mitigation strategy for the capacity of the stormwater system in either Alternative, and was not recommended as modeled in the representative stormwater investment list.** This is because much of the potential flooding within parcels is resolved with the on-site stormwater mitigation from redevelopment. These strategies were not evaluated for their potential relative to mitigating right-of-way stormwater or existing flooding conditions or for park or open space community benefit, given the high cost of construction and maintenance of the improvements as modeled. Other types of green streets or stormwater expression, that were not included in the study and may have lower maintenance costs, could continue to be considered as urban design features with water quality treatment benefits.

4. **Although not directly related to the Station Area vision, the analysis showed that outside of the Study Area, an increase in runoff from the upstream residential areas causing potential flooding.** The growth associated with June Alternatives A and B did not have any impact on or contribution to this potential upstream residential area flooding. Residential parcels are smaller in size and tend to be under the mitigation requirement and therefore are exempt from the requirement to construct large stormwater facilities. This issue will need to be addressed in context of future development outside the Station Area.
5. **Recommended next steps** include considering re-evaluation of the conveyance standards to acknowledge climate change projections that indicate an 18-22% higher storm intensity in the 2030's to provide for more resilient design and developing a groundwater management policy to preserve system capacity.

Overall, this analysis shows that development and any associated land use code changes under each Alternative within the Study Area will not negatively impact existing stormwater conveyance through the stormwater main line on 120<sup>th</sup> Ave NE between NE 85<sup>th</sup> St and NE 90<sup>th</sup> St. Redevelopment in this area should reduce stormwater runoff with the implementation of required onsite stormwater control facilities.

Stormwater infrastructure costs and resources are addressed further in:

- Section 4.5.1 Capital Revenues.
- Section 4.5.2 Capital Costs.
- Section 4.5.3 Capital Net Fiscal Impact (page 4-28): A comparison of City-funded stormwater infrastructure costs and revenues.

# 4.0 Fiscal Impacts Analysis

## 4.1 Fiscal Analysis: Purpose and Context

The fiscal analysis is designed to answer a key question: *With population growth and redevelopment in the Station Area Plan, comparing June Alternatives A and B, can the City afford the investments necessary to address increased demand on public services, especially schools, parks/open spaces, transportation, and utilities, and avoid a reduction in service for existing residents and businesses?*

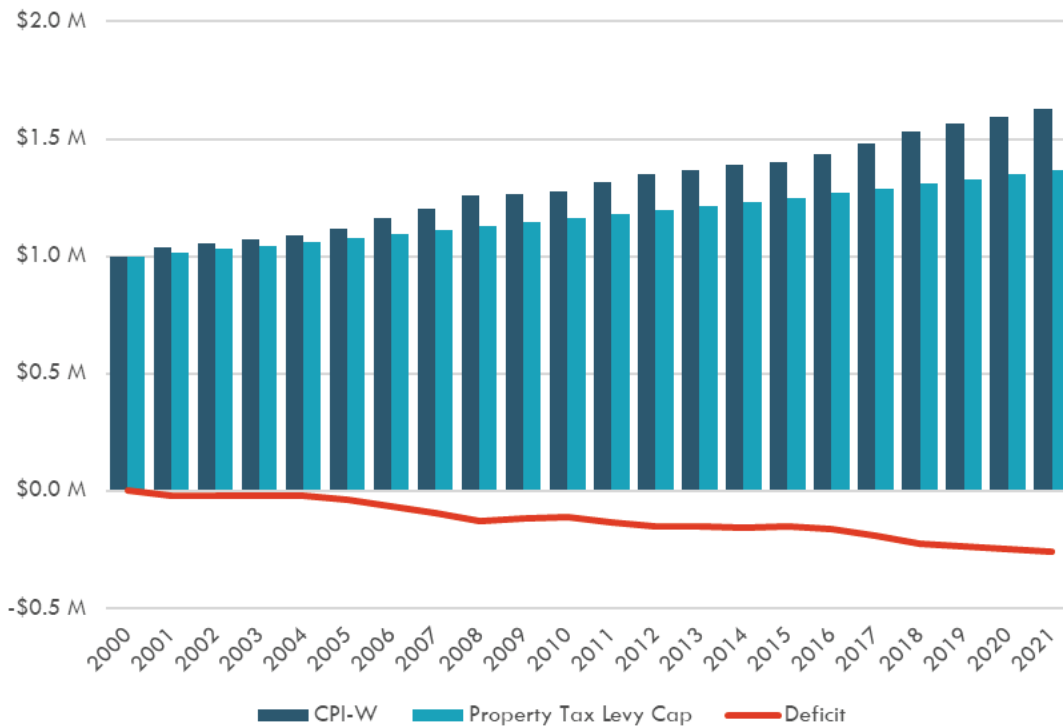
### *Fiscal Context*

- **The Washington tax code, specifically a cap on property tax increases, creates a structural gap between operating costs and revenues in the absence of growth.** This is illustrated for a prototypical Washington city in Exhibit 4-1. This structural imbalance exists for Kirkland, as shown in Exhibit 4-2, and the Council takes specific actions each biennium to balance the budget and fund service levels. Growth-related revenues are significant, particularly for Alternative B, but, given the structural challenges noted here, it is expected that operational fiscal sustainability challenges will resurface over time as inflation outpaces capped property tax revenues.
- **The Station Area Plan is not an opportunity to catch up on existing service deficits.** Like most cities, Kirkland aspires to higher levels of service than it is often able to attain, and certain City services are currently below desired levels. Similarly, the City would like to invest in capital facilities, such as a pool or recreation center, to serve the population. As noted in the key question above, the Station Area Plan does not represent an opportunity to bridge current deficits. The focus of this fiscal analysis is on determining whether *existing* levels of service can be sustained.
- **Planning level studies were conducted to determine a set of representative infrastructure investments needed to maintain service levels in transportation, water and sewer, and stormwater with the June Alternatives A and B.** These studies were produced for development of conceptual cost estimates for fiscal modeling of the Station Area and are not intended to show a preferred plan or final project configurations, which will be developed in later stages of planning and are subject to City Council approval.



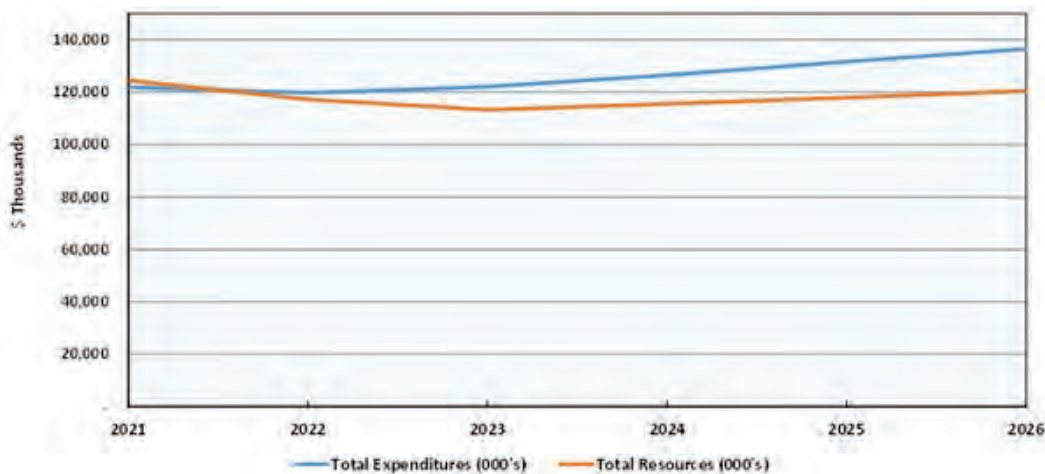
**Exhibit 4-1. Fiscal Projections for a Prototypical Washington City**

Comparing Effects of the 1% Property Tax Levy Cap to the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)



Source: BERK, 2021.

**Exhibit 4-2. Kirkland General Fund Forecast, 2021-2026**



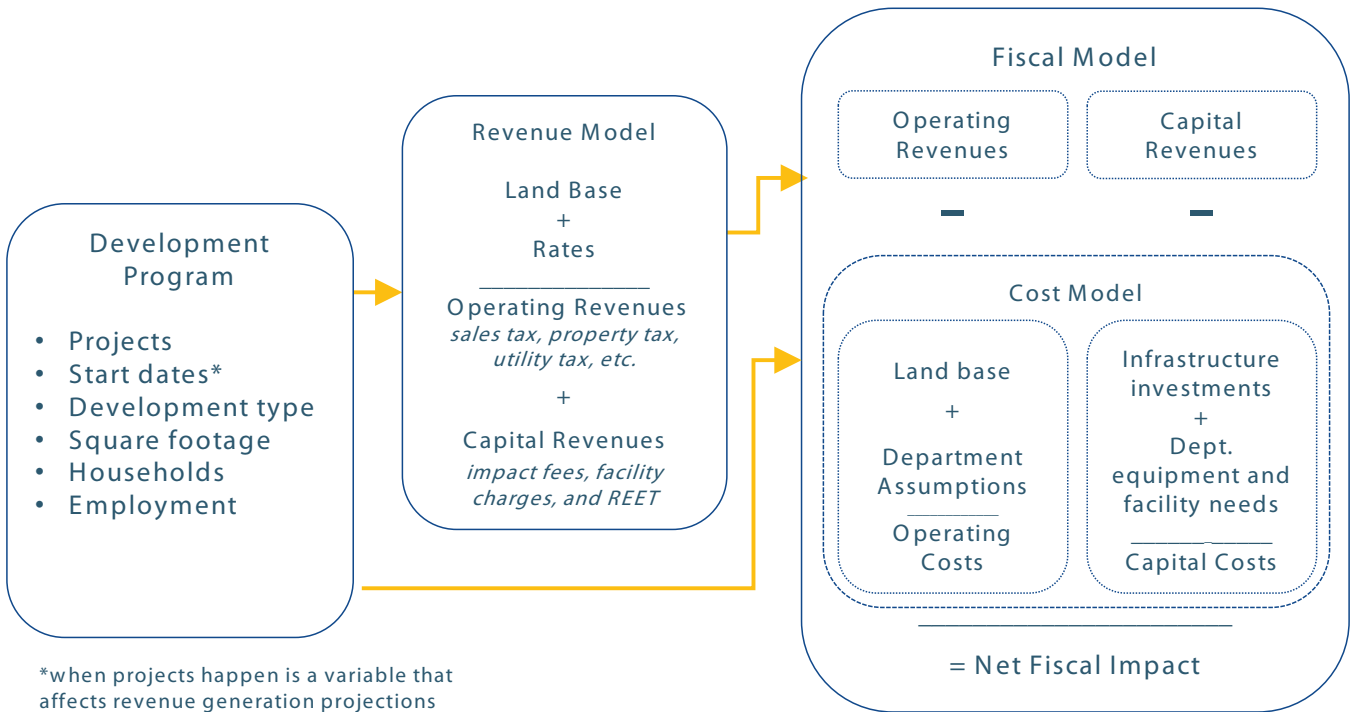
Note: Reflects 2021-2022 Revised Budget

Source: City of Kirkland, 2021.

## 4.1.1 Fiscal Model Structure and Use

Exhibit 4-3 illustrates the functioning of the revenue and cost models used to analyze the net fiscal impacts to the City of June Alternatives A and B. ECONorthwest developed a revenue model to project associated operating and capital revenues for the City, as well as revenues for key City partners. BERK led development of the cost model and calculation of net fiscal impact by comparing City revenues to expenses. BERK relied on the infrastructure investment analysis discussed in Section 3.0 for costs associated with transportation, water, sewer, and stormwater infrastructure.

**Exhibit 4-3. Fiscal Model Structure**



Source: BERK, 2021.

### Development Assumptions

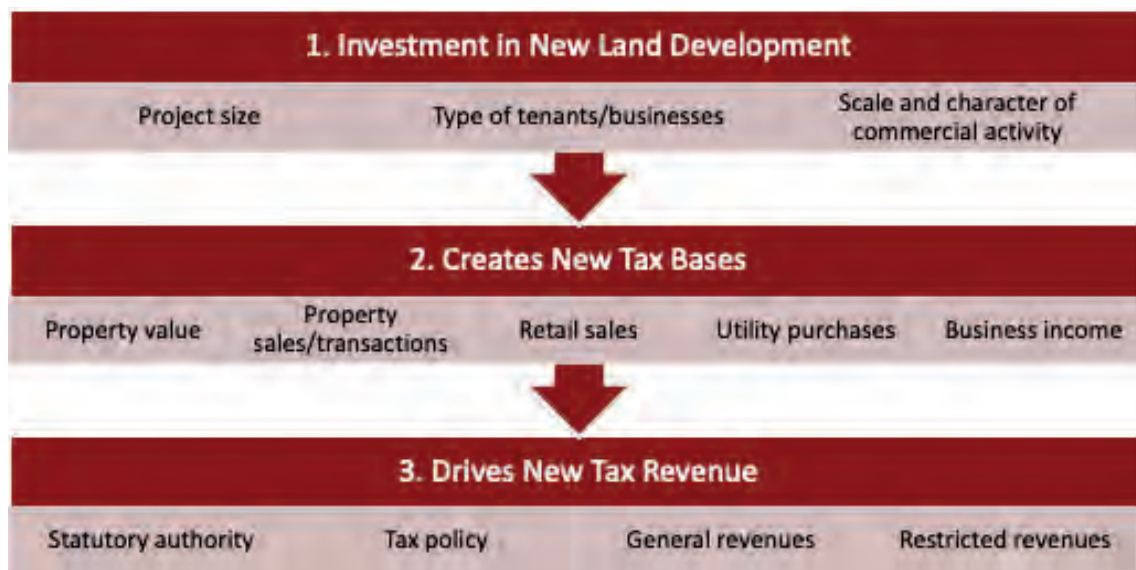
The development assumptions that drive revenue and cost projections are consistent with June Alternatives A and B established for further evaluation in June 2021. They use the same control totals and spatial allocation of growth to the Traffic Analysis Zone (TAZ) level as other analyses. From there, development was assigned to parcels using development prototypes that reflect realistic building forms and densities consistent with each Alternative’s future land use assumptions. Parcel-level development assumptions were aggregated into “Projects” – clusters of adjacent parcels (all within the same TAZ and same physical block) with the same development assumptions. Development was spread through the planning period based on timing for known development projects and generalized market conditions for residential, office, and flex/industrial development.

## 4.2 Revenue Analysis Methodology

### 4.2.1 General Assumptions

Washington State tax policy has conditions that allow governments that grow their tax bases to collect additional revenues. This relationship creates a mutually reinforcing benefit of housing and commercial development with additional tax revenues. As shown in Exhibit 4-4, new land development represents a direct financial investment in land preparation and building structures. Those structures are then occupied by residential and business uses that increase the lands' productive economic capacity. That economic value generates taxable bases at the land, business operation, and transaction level, represented in land value, retail sales, business income, etc. State tax policy allows government jurisdictions to tax these bases to fund needed public services and infrastructure.

**Exhibit 4-4. Land Development and Tax Revenue Generation**



Source: ECONorthwest, 2021.

The application of tax policy on these tax bases determines the amount of local tax revenue generated by the land development and the businesses and residential uses that occupy the developed land.

The tax impact analyses focus on the core tax revenues that support the delivery of general City services as well as a select number of capital restricted revenues used to fund infrastructure. The analysis above assesses the tax revenue of the proposed Alternative development in Kirkland based on assumptions about the timing, scale, and quality of construction. This analysis looks at an approximate baseline for the revenue impact of redevelopment acknowledging the uncertainty inherent in the broader economy and development. The three main determinants of fiscal impact are explained below.

- **Scale and Mix of Development.** The fiscal impact is likely to change as developers contemplate differing types and amounts of land development. Effectively, changes to these assumptions impact how much economic activity will take place in the area.
- **Quality of Development.** Baseline assumptions around development quality are drawn from reliable data calibrated to the Kirkland marketplace.

- **Timing of Development.** The timing of construction, absorption, and occupancy of development can either accelerate or delay the onset of tax revenues. Delay reduces the tax revenues from construction and operations in the area by pushing out the impacts into the future, resulting in decreasing years of benefits.

Conceptually, tax revenues are differentiated into three categories:

- **One-time Revenues.** These General Fund revenues are tied to the construction of housing and commercial products. Specifically, they include the retail sales tax on construction (materials and labor). They also include the one-time nature of permit and permit review fees (these revenues are assumed to support the cost of permitting activities and are not available for other purposes).
- **Recurring Revenues.** These General Fund revenues are derived from the occupancy of residential and commercial structures by residents, businesses, and employees. Specific revenues include the property tax, retail sales tax, and utility taxes.
- **Non-General Fund Capital Restricted Revenues.** These revenues are statutorily restricted to fund capital expenses. Specific revenues include the real estate excise tax, impact fees, and capital facility charges.

### *Baseline Comparisons*

The revenue analysis seeks to identify the incremental “new” revenue within the study area for each alternative. The analysis must then create an estimate for how much tax and fee revenue is generated within the study area today and how those revenues may grow in the future assuming no changes in land development. With this “baseline” understanding, it is possible to analyze the impact of the growth in the alternatives by doing two things as a project site is redeveloped: 1) the existing stream of tax revenues will cease to accrue to the city, and 2) a new stream of revenues will begin accruing to the city tied to the new construction and occupation of the building.

## 4.2.2 Operating Revenues

The following description of tax revenues is included for reference of the estimated taxes. Tax revenues are calculated based on the changes in the components of the City's tax base resulting from redevelopment in the Study Area. Elements of growth that influence revenues include the timing, scale, and quality of development understood as part of the Alternative specification.

The following operating revenues are estimated as part of the analyses:

- **Property Tax.** The property tax impact is only the degree that new construction assessed value raises the add-on value to the City levy capacity above the 1% limit. Redevelopment of the site would be taxed at the City's regular levy rate. Only the regular levy is considered in this analysis (i.e., not including the 2020 Fire & EMS Levy Lid Lift). The 2021 expense levy is \$0.9937 per \$1,000 of taxable assessed value. The analysis lets the levy rate grow and recede with growth in new construction, assessed value, and levy collections. This tax is modeled by estimating the amount of new construction and assessed value is within both the study area and city in order to estimate the property tax rate in any given year. With this information it is possible to estimate how much new assessed valuation and property taxes are generated within the study area under a given alternative.

- **Sales Tax.** Of the 10.2% sales tax currently collected in the City on general retail purchases, a 1% "local" share of the tax accrues to local jurisdictions. The City receives 85% of the 1% local tax and King County gets 15%. This tax is levied on businesses in the area, and also on construction activity and some transactions related to housing and business, such as certain online purchases and the delivery of personal and commercial goods. The current rate accruing to the City is 0.85%. The sales tax relies on estimates of new construction value and consumer taxable retail sales spending.
  - The City also levies a 0.1% Public Safety sales tax. The revenue must be shared with the County for this tax (the City receives 85% of this increment as well with the County receiving 15%).
  - The City also receives a population pro rata share of 90% of the city allocation of King County's 0.1% criminal justice sales tax. Increase in the criminal justice tax is modeled on net increases in population due to development.
  - In the 2019 legislative session, the state approved a local revenue sharing program for local governments by providing a 0.0146% local sales and use tax credited against the state sales tax for housing investments. The city's rate is 0.0073% due to the county also using this tax. This tax is not estimated at this time.
- **Business License Tax.** The City collects an annual business license tax. The fee is a base rate plus a "per employee fee." Kirkland does not impose a Business and Occupation (B&O) tax on gross receipts. The license tax is calculated by estimating the amount of employment by industry sector within occupied buildings and applying the appropriate tax rate.
- **Utility Taxes.** The City imposes utility taxes on gross purchases of electricity, water, wastewater, solid waste, telephones, cable, and natural gas. Current tax rates are used for this analysis. A generalized utility expenditure productivity factor (on a per person and employee basis) was used to generate estimates of utility purchases.
  - Water: 13.38%
  - Wastewater: 10.5%
  - Electric: 6%
  - Natural Gas: 6%
  - Solid Waste: 10.5%
  - Cable/Internet: 6%
  - Telephone/Mobile: 6%
  - Stormwater: 7.5%
- **State Shared Revenues.** The City receives several State-shared revenues. The principal sources treated in the analysis are the Motor Vehicle Fuel Tax, Liquor Excise Tax, and Liquor Board Profits. These revenues are primarily disbursed on a formula weighted toward population. Increase in the criminal justice tax is modeled on net increases in population due to development.



## 4.2.3 Capital Revenues

The following capital revenues are estimated as part of the analyses:

- **Real Estate Excise Tax (REET).** REET revenues are placed in the capital restricted funds and are used by the City to finance capital projects. This analysis assumes that all market-rate developments would be sold upon completion with some share of structures entering the resale market in subsequent years. The rate of valuation turnover is assumed to be 9.61%, the rate or turnover ranges from about 7% in years when price growth is low and up to 11% in years when price growth is high). The City currently uses both 0.25% REET rates (REET 1 and REET 2 total to a rate of 0.5%).
- **Impact Fees.** The City levies transportation, parks, and fire impact fees calculated on units of development and square footage of development (depending on the type of impact fee). The City also collects a school impact fee on behalf of the Lake Washington School District. Impact fees are estimated by applying the appropriate rate on the type of development specified in the respective alternative. Impact Fees were assumed to grow at a rate of 2.90%, derived from a 10-year average of the Engineering News-Record's Construction Cost Index and consistent with the inflation rate used for the cost of City infrastructure projects upon which these revenues are based. The inclusion of future capital improvements to the Capital Facilities Plan could lead to additional fee increases.
- **Capital Facility Charges.** The City also collects a capital facility charge for its water utility, sewer utility, and stormwater utility. Facility charges are estimated by applying the appropriate rate on the type of development specified in the respective alternative. Like Impact Fees, Capital Facility Charges were assumed to grow at the 10-year average of the Engineering News-Record's Construction Cost Index and consistent with the inflation rate used for the cost of utility infrastructure projects upon which these revenues are based.

## 4.3 Cost Analysis Methodology

### 4.3.1 Operating Costs

Operating cost projections were developed in collaboration with City staff and are based on estimated operational impacts to each of the City's departments. City departments are bucketed into the following five departmental categories: Fire, Police, Parks and Community Services, Public Works, and Internal Services. Internal Services includes the City's Finance and Administration, Human Resources, Information Technology, City Manager's Office, City Attorney's Office, and Municipal Court departmental functions.

As a note, growth in the Study Area is also assumed to impact Planning and Building operations; however, this analysis assumes that operating activities funded by permit-related revenues (i.e., Planning and Building) as well as by utility operating revenues (i.e., certain functions of Public Works) are covered by those respective revenue sources based on increased demand for services. As such, the methodology covered below focuses on operating costs funded by general operating revenue sources (e.g., property taxes, sales taxes, utility taxes, etc.), which are defined as "general operating costs."

General operating costs for each departmental category are broken out into labor costs, such as salaries and benefits, and non-labor costs, such as supplies, IT operating charges, fleet operating charges (excepting Fire and Police whose fleet needs are projected separately), facility operating charges, etc.

Inflation assumptions are based on City staff input and consistent with the City's long-term growth assumptions for budgeting and financial forecasting where possible. Salaries are assumed to grow at 2.26% annually while benefits are assumed to grow at 6.10% annually, consistent with the City's assumptions around labor cost budgeting. Non-labor costs are assumed to grow in line with the average annual growth rate (2.14%) of the Seattle-Tacoma-Bellevue Consumer Price Index: All Urban Wage Earners and Clerical Workers.

In the following sections, general operating cost assumptions and methodology are outlined for each of the five departmental categories.

## *Fire*

### **Drivers**

Operating cost projections for Fire are based on the projections of additional annual fire incidents from growth in the study area. The projection methodology for new annual incidents is driven by applying estimated increases in square footage of various land uses in the study area, such as commercial, office & industrial, or estimated increases in single-family or multifamily dwelling units in the study area to incident generation rates derived from the City's 2020 Fire Impact Fee Update.<sup>1</sup>

### **Labor and Non-Labor Needs and Costs**

Fire labor needs are based on assumptions developed by Fire Department staff given the projected number of annual incidents under each Alternative. Under Alternative B, Fire staff projected a need for five additional firefighters and one additional fire inspector based on the volume of annual projected incidents and annual major developments (multifamily, mixed use, or other non-residential buildings) added in the area. Fire staff estimated that firefighter staffing would need to be added to Station 26 when the volume of annual incidents in the Study Area increased above 500 per year. Additionally, it was estimated that an additional fire inspector would need to be added when 5 new major development buildings would complete construction. Labor and non-labor costs are based on 2021 budgeted firefighter and fire inspector salaries/benefits and average 2015-2021 Fire non-labor costs in 2021 \$ per Fire staff FTE, respectively. Additional one-time non-labor costs for training and equipment are based on estimates from City staff.

Under Alternative A, Fire staff estimated that the Department's current and projected future staffing capacity would be able to handle the additional generated annual incidents in the Study Area and no additional operational costs would be needed.

## *Police*

### **Drivers**

Operating cost projections for Police are driven by a variety of assumptions, primarily either in projected increases in annual calls for service or projected increases in total equivalent population. Projected

---

<sup>1</sup> [https://www.kirklandwa.gov/files/sharedassets/public/city-council/agenda-documents/2021/april-6-2021/9a\\_business.pdf](https://www.kirklandwa.gov/files/sharedassets/public/city-council/agenda-documents/2021/april-6-2021/9a_business.pdf)

increases in annual calls for service are based on the average ratio of annual Citywide calls per service to the City's total equivalent population from 2015 to 2019.

### **Labor and Non-Labor Needs and Costs**

Police labor and non-labor needs and costs are projected for the following Department functions:

- *Patrol Division* – Labor and non-labor needs for the Patrol Division are based on applying the average ratio of Patrol staff to annual calls for service from 2015 to 2019 to projected increases in annual calls for service. Patrol labor and non-labor costs are based on average 2021 budgeted patrol officer salaries/benefits and average 2015-2021 Police non-labor costs in 2021\$ per police staff FTE, respectively.
- *Traffic Division* – Labor and non-labor needs for the Traffic Division are determined by applying the average ratio of Traffic staff to total equivalent population from 2015 to 2020 to projected increases in total equivalent population. Traffic labor and non-labor costs are based on average 2021 budgeted traffic officer salaries/benefits and average 2015-2021 Police non-labor costs in 2021\$ per Police staff FTE, respectively.
- *Professional Standards Division* – Labor and non-labor needs for the Professional Standards Division are determined by applying the average ratio of Professional Standards staff to Patrol staff from 2015 to 2020 to projected increases in Patrol staff. Professional Standards labor and non-labor costs are based on average 2021 budgeted Professional Standards salaries/benefits and average 2015-2021 Police non-labor costs in 2021\$ per Police staff FTE, respectively.
- *Administration Staff* – Labor and non-labor needs for Administration staff are determined by applying the average ratio of Administration staff to Patrol staff from 2015 to 2020, which was subsequently adjusted downwards by 50% based on feedback from Police staff, to projected increases in Patrol staff. Administration labor and non-labor costs are based on average 2021 budgeted Administration staff salaries/benefits and average 2015-2021 Police non-labor costs in 2021\$ per Police staff FTE, respectively.

BERK also explored the need for additional Corrections staff and City staff indicated that there is enough existing capacity to meet needs under either Alternative.

### **Parks and Community Services**

#### **Drivers**

Operating cost projections for Parks and Community Services are primarily driven by projected increases in total population in the Study Area. This approach assumes that the City will maintain existing staffing levels on a per capita basis. It should be noted that this approach does not specifically project the portion of increased Parks and Community Services staffing needed to service potential new park facilities or amenities in the Study Area. Projected Parks and Community Services staffing through this method could be deployed to both service existing Citywide park facilities or amenities that would see increased usage due to growth as well as any potential new park facilities or amenities in the Study Area.

### **Labor and Non-Labor Needs and Costs**

Parks labor needs are determined by applying the average ratio of Parks and Community Services FTEs to Citywide population from 2015 to 2020 to projected increases in total population under either Alternative. Labor costs are based on average 2021 budgeted Parks and Community Services staff salaries/benefits.

Parks non-labor costs are determined by applying average 2015-2020 Parks non-labor spending in 2021 \$ per City resident towards projected increases in total population. As a note, Human Service grant amounts are increased as part of this calculation.

### **Public Works**

#### **Drivers**

Operating cost projections for Public Works are driven by a variety of assumptions, primarily around increases in annual major development projects and specific assumptions derived from Public Works staff input.

### **Labor and Non-Labor Needs and Costs**

Labor and non-labor costs assumptions are driven by a variety of factors depending on the type of function:

- *Fleet Management* – As a note, fleet management costs are captured for each departmental category through non-labor cost assumptions, or, in the case of Fire and Police through capital cost assumptions. For Public Works, BERK projected fleet management staffing needs to understand the City's need for additional municipal facilities. Labor needs for fleet management are determined by applying the 2021 budgeted ratio of fleet technicians to City vehicles toward the number of vehicles estimated to be added by each department.
- *Streets and Public Grounds* – BERK explored the need for additional streets and public grounds staffing; however, based on Public Works staff input, developments in the Station Area are not estimated to increase need for staffing under either Alternative.
- *Development Engineering, Permit Review, Inspection* – Labor needs for this function are determined by applying the ratio of the increase in development engineering, permit review, and inspection staffing between 2016 to 2018 to the change in new building permits issued for major developments between 2016-2018 towards expected annual growth in major development projects under either Alternative. Labor costs and non-labor costs are based on the average 2021 budgeted salaries and benefits for development engineering, permit review, and inspection staff as well as average 2015-2021 Public Works non-labor costs in 2021 \$ per Public Works staff FTE, respectively.
- *Water and Sewer Maintenance* – BERK explored the need for additional water and sewer maintenance staffing; however, based on Public Works staff input, developments in the Station Area are not estimated to increase need for staffing under either Alternative.
- *Stormwater Inspection and Maintenance* – Labor needs for stormwater inspection are determined by applying a Public Works staff assumption of needing 1 new Stormwater Inspector for every 200 new major developments to expected growth in major development projects under either Alternative. Labor costs and non-labor costs are based on the average 2021 budgeted salaries and benefits for

Stormwater staff as well as average 2015-2021 Public Works non-labor costs in 2021\$ per Public Works staff FTE, respectively.

- *Transportation Maintenance* – Labor needs for additional transportation maintenance are assumed to primarily be driven by need for additional signal technicians. Based on Public Works staff input, the need for additional signal technicians is assumed to increase at a rate of 1 new technician for every 20 new signals under each Alternative. Additionally, under Alternative B, Public Works staff indicated the need for 0.5 FTE of signal technicians for maintaining supporting infrastructure such as rectangular rapid-flashing beacons (RRFBs) and streetlights. Labor costs and non-labor costs for additional signal technicians are based on the average 2021 budgeted salaries and benefits for an Electronics Technician III as well as average 2015-2021 Public Works non-labor costs in 2021\$ per Public Works staff FTE, respectively.
- *Transportation Demand Management* – Based on Public Works staff input, labor needs for an additional Transportation Program Coordinator are assumed in Alternative B. Labor costs and non-labor costs for an additional Transportation Program Coordinator are based on the average 2021 budgeted salary and benefits for a Transportation Program Coordinator as well as average 2015-2021 Public Works non-labor costs in 2021\$ per Public Works staff FTE, respectively. The Transportation Program Coordinator position is assumed to be added in Alternative B in 2029, when the first transportation projects are assumed to begin construction.

## *Internal Services*

### **Drivers**

Operating cost projections for Internal Services are driven by increases in staffing in other non-Internal Services City departments, namely Fire, Police, Parks, Planning and Building, and Public Works.

### **Labor and Non-Labor Needs and Costs**

Labor and non-labor costs assumptions are driven by a variety of factors depending on the type of function:

- *Human Resources* – Labor needs for Human Resources staffing are determined by applying the 2021 ratio of Human Resources FTEs to all non-Internal Services FTEs towards the estimated number of non-Internal Services FTEs added under each Alternative. Labor costs and non-labor costs are based on the average of 2021 budgeted salaries and benefits for Human Resources staff as well as average 2015-2021 Human Resources non-labor costs in 2021\$ per Human Resources staff FTE, respectively.
- *Finance and Administration* – Labor needs for Finance and Administration staffing are determined by applying the 2021 ratio of Finance FTEs to all non-Internal Services FTEs towards the estimated number of non-Internal Services FTEs added under each Alternative. Labor costs and non-labor costs are based on the average of 2021 budgeted salaries and benefits for Finance staff as well as average 2015-2021 Finance and Administration non-labor costs in 2021\$ per Finance staff FTE, respectively.
- *City Manager's Office (CMO)* – Labor needs for CMO staffing are determined by applying the 2021 ratio of CMO FTEs (excluding Facilities staff) to all non-Internal Services FTEs towards the estimated number of non-Internal Services FTEs added based on redevelopment under each



Alternative. Labor costs and non-labor costs are based on the average of 2021 budgeted salaries and benefits for CMO staff as well as average 2015-2021 CMO non-labor costs in 2021 \$ per CMO staff FTE, respectively. As a note, the CMO calculation for non-labor costs includes a factor for increased needs for the City's community responder program.

- *City Attorney's Office (CAO)* – Labor needs for CAO staffing are determined by applying the 2021 ratio of CAO FTEs to all non-Internal Services FTEs towards the estimated number of non-Internal Services FTEs added based on redevelopment under each Alternative. Labor costs and non-labor costs are based on the average of 2021 budgeted salaries and benefits for CAO staff as well as average 2015-2021 CAO non-labor costs in 2021 \$ per CAO staff FTE, respectively.
- *Municipal Court* – Labor needs for Municipal Court staffing are determined by applying the 2021 ratio of Judicial Support and Probation Officer FTEs to Kirkland's total equivalent population towards the estimated increase in total equivalent population in the Study Area based on redevelopment under each Alternative. Labor costs and non-labor costs are based on the average of 2021 budgeted salaries and benefits for Judicial Support and Probation Officer FTEs as well as average 2015-2021 Municipal Court non-labor costs in 2021 \$ per Municipal Court staff FTE, respectively.
- *Prosecutors* – As the City contracts for prosecutors, needs for increased prosecutor services (which are assumed to be Internal Services non-labor costs from the City perspective) are determined by applying the ratio of the City's 2021 budgeted contract to the City's Municipal Court FTEs towards the additional Municipal Court FTEs to be added under each Alternative.
- *Public Defenders* – As the City also contracts for public defenders, needs for increased public defender services (which are assumed to be Internal Services non-labor costs from the City perspective) are determined by applying the ratio of the City's 2021 budgeted contract to the City's Municipal Court FTEs towards the additional Municipal Court FTEs to be added under each Alternative.
- *Information Technology* – Like fleet management costs in Public Works, IT costs are captured at the department level through non-labor cost assumptions. However, BERK projected IT staffing needs to understand the City's need for additional municipal facilities. FTE needs for IT are determined by applying the 2021 ratio of IT FTEs to all non-Internal Services FTEs towards the estimated number of non-Internal Services FTEs added under each Alternative.
- *Facilities* – Like IT costs, Facilities costs are captured at the department level through non-labor costs assumptions. However, BERK estimated Facilities staffing needs to understand the City's need for additional facilities. FTE needs for Facilities are determined by applying the 2021 ratio of Facilities FTEs to all non-Internal Services FTEs towards the estimated number of non-Internal Services FTEs added under each Alternative.

### 4.3.2 Capital Costs

Capital cost projections were developed in collaboration with City staff as well as Fehr and Peers for transportation improvements, RH2 for water and sewer improvements, and Robin Kirschbaum, Inc. (RKI) for stormwater improvements. For our analysis, capital costs are broken out into the following

departmental or use categories: Fire, Police, Parks and Community Services, Internal Services, Public Works – Water, Public Works – Sewer, Public Works – Stormwater, and Public Works – Transportation.

Inflation assumptions are based on City staff input and consistent with the City's growth assumptions for budgeting and financial forecasting where possible. Costs for vehicles and equipment are assumed to grow at a rate of 3% annually, consistent with the City's assumptions around fleet budgeting. Infrastructure costs (i.e., water, sewer, stormwater, and transportation improvements) along with Internal Services facility renovation costs and Parks capital costs are assumed to grow at a rate of 2.90%, derived from a 10-year average of the Engineering News-Record's Construction Cost Index.

In the following sections, capital cost assumptions and methodology are outlined for each of the eight capital cost categories.

### *Fire*

Fire capital costs are based on estimated vehicles and equipment needed to support increased Fire operating needs in the Study Area developed by Fire staff. Fire staff indicated that current Fire facilities are sufficient to service expected growth in the Study Area under either Alternative and there was no expected need under either Alternative for new or expanded Fire facilities.

Under Alternative B, Fire staff indicated the need for an additional aid car and the need to convert an existing engine truck into a ladder truck in Station 26. The need for these vehicles was assumed to start when increased firefighter staffing would be needed in Station 26, as outlined above. Costs for the aid car are derived from the average 2021 replacement value of Fire aid cars in the City's fleet. Costs for the engine truck to ladder truck conversion are derived by taking the difference of the 2021 replacement value of engine truck F617 in the City's fleet and estimates of the acquisition cost of a new ladder truck provided by City staff.

Under Alternative A, Fire staff indicated there are no capital costs needed to service growth in the Study Area.

### *Police*

Police capital costs are based on estimated vehicles and equipment needed to support increased Police operating needs in the Study Area. Police staff indicated that current Police facilities are sufficient to service expected growth in the Study Area under either Alternative and there was no expected need under either Alternative for new or expanded Police facilities.

Under either Alternative, vehicle and equipment needs are based on type of operating function (i.e., Patrol, Traffic, Professional Standards, etc.) and estimated by applying the average 2021 ratio of vehicles per each function's FTEs toward the projected increase in each respective function's staffing. Under Alternative B, based on Police staff input, the need for Professional Standards vehicles was manually adjusted to be 1 Professional Standards vehicle.

Equipment needs are estimated to follow the same ratio as vehicle needs. Vehicle costs are estimated by using the average 2021 replacement value of vehicles for each respective function and assumed to follow the average replacement schedule of vehicles for each function. Equipment costs for outfitting Police vehicles (radios, laptop, firearms, etc.) are based on assumptions from City staff.

## Parks and Community Services

Parks capital costs are based on estimated park facilities and acreage needed to be added within the City to comply with the City's adopted Level of Service (LOS) guidelines. Since the City's LOS guidelines are for the entire City, the approach to estimating park capital costs focused on capturing the Study Area's incremental share of facilities and acres that need to be added Citywide.

Exhibit 4-5 details all facility or acreage-based City Parks LOS guidelines and the estimated unit cost for each facility or acreage type.

**Exhibit 4-5. Park LOS Guideline and Estimated Facility/Acre Costs, 2021\$**

Facility/Acre Type	LOS Guidelines	Estimated Cost per Facility/Acre
Tennis Courts	1/3,000 pop.	\$0.1 M
Baseball Fields	1/5,000 pop.	\$1.9 M
Softball Fields	1/10,000 pop.	\$1.4 M
Soccer/Football/Lacrosse Fields	1/7,500 pop.	\$2.7 M
Skate Parks	1/40,000 pop.	\$1.4 M
Indoor Pools	1/40,000 pop.	\$72.0 M
Community Park Acres	2.25/1,000 pop.	\$2.3 M
Neighborhood Park Acres	1.5/1,000 pop.	\$2.3 M

Sources: HBB, 2021; City of Kirkland, 2021; BERK, 2021.

Unit cost estimates for Tennis Courts, Baseball Fields, Softball Fields, Soccer/Football/Lacrosse Fields, and Skate Parks are based on development prototype costs from HBB Landscape Architecture, which were developed as estimates for King County-based parks development projects and include design/engineering fees, financing costs, and contingency funds. Unit cost estimates for Indoor Pools are based on assumptions from City staff. Unit cost estimates for Community and Neighborhood Parks Acres are based on an average of 2020 assessed values per acre within the Study Area.

## Internal Services

Internal Services capital costs are based on the costs of renovating City Hall to accommodate additional staff in the building. Renovation needs are based on the number of City Hall-based staff that would be added under each Alternative. Renovation costs are based on a per-employee estimate of renovation costs supplied by City staff (\$18,000 per employee).

## Public Works – Transportation, Water/Sewer, and Stormwater

See Section 3.0 for infrastructure costing methodology.

## 4.4 Operating Revenues and Costs

### 4.4.1 Operating Revenues

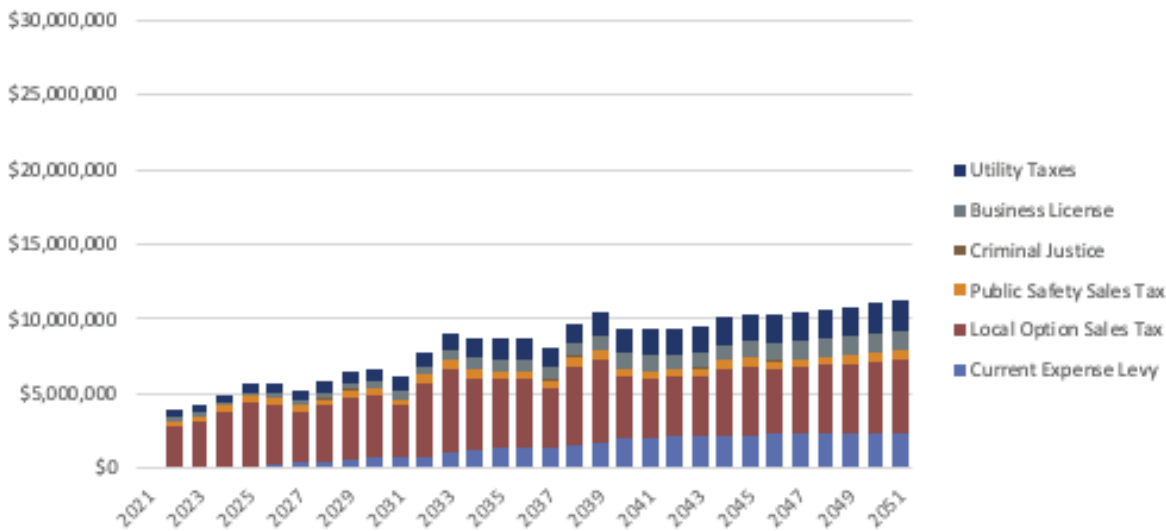
In this section, projected operating revenues from current and potential future uses are outlined for each Alternative. General operating revenues include the City’s current expense levy (property tax), sales taxes, and utility taxes among other sources and are assumed to be available to fund the City’s general government operating functions. General operating revenues fluctuate year-over-year depending on the amount of development happening and subsequently when buildings are occupied. Overall revenues may fall year-over-year depending on the tax contributions of the existing use relative to what use supersedes it from redevelopment.

As a note, the City also collects permit-related revenues such as plan check fees, design review fees, and building permit fees, which are dedicated to funding planning operating functions in the City’s Planning and Building department. For the fiscal impacts analysis, these revenues are assumed to cover projected planning operating costs in the Study Area and are not included in the projections shown below. As growth and development occur in the Study Area, the City should monitor the associated permit-related revenues and planning costs collected and incurred, respectively, to assess whether the current fee structure needs to be addressed if revenues and costs are not aligned.

#### Alternative A Operating Revenues

Exhibit 4-6 summarizes the operating revenues from current and potential future uses in Alternative A. At buildout of Alternative A, operating revenues stabilize at about \$10 million dollars per year.

**Exhibit 4-6. Alternative A General Operating Revenues, YOES\$**

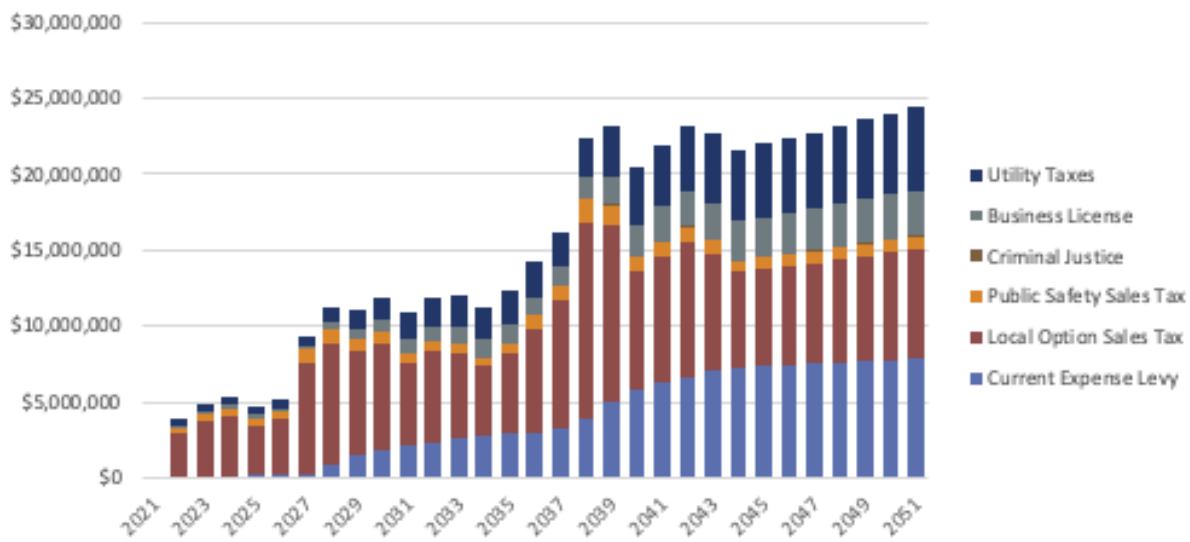


Sources: City of Kirkland, 2021; ECONorthwest, 2021.

#### Alternative B Operating Revenues

Exhibit 4-7 summarizes the operating revenues from current and potential future uses in Alternative B. At buildout of Alternative B, operating revenues stabilize at about \$21 million dollars per year.

**Exhibit 4-7. Alternative B General Operating Revenues, YOES\$**



Sources: City of Kirkland, 2021; ECONorthwest, 2021.

### 4.4.2 Operating Costs

In this section, projected operating costs from growth in the Station Area are outlined for each Alternative. Operating costs are summarized by departmental category. As mentioned previously, departmental categories include Fire, Police, Parks and Community Services, Public Works, and Internal Services.

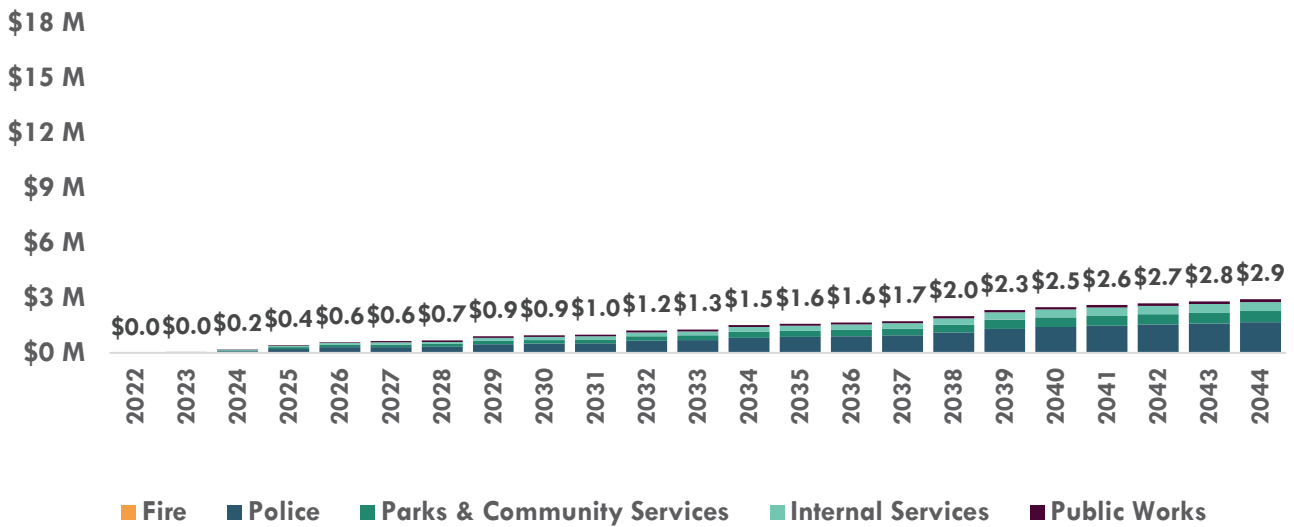
As a reminder, this analysis again assumes that operating activities funded by permit-related revenues (i.e., Planning and Building) as well as by utility operating revenues (i.e., certain functions of Public Works) are covered by those respective revenue sources based on increased demand for services in the Study Area. As such, the analysis covered below focuses on operating costs funded by general operating revenue sources (i.e., property taxes, sales taxes, utility taxes, etc.), which are defined as “general operating costs.”

#### Alternative A Operating Costs

Exhibit 4-8 details general operating costs under Alternative A by departmental category. The largest drivers of operating costs are from Police, followed by Parks and Community Services, and Internal Services.



**Exhibit 4-8. Alternative A General Operating Costs by Departmental Category, YOES**

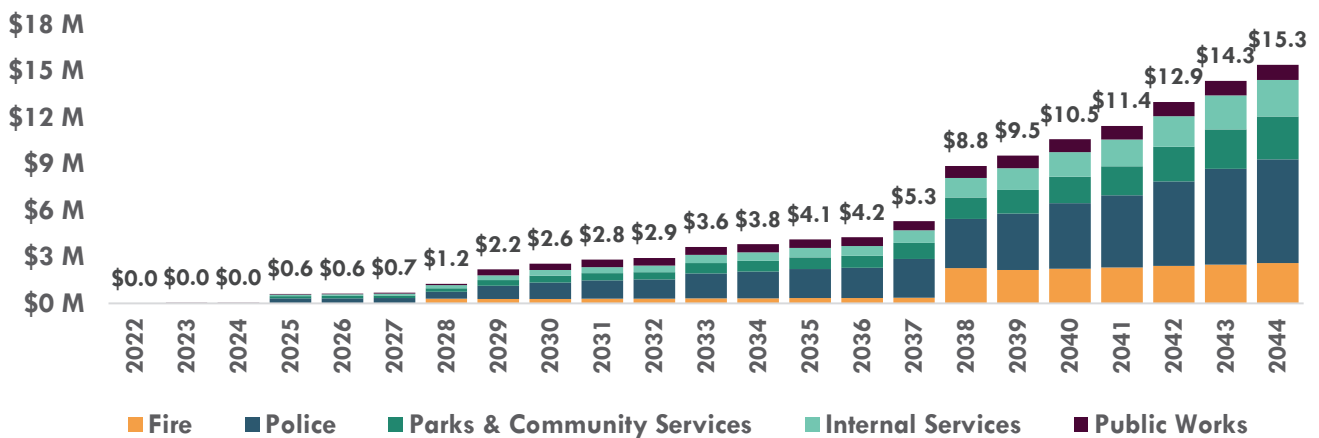


Sources: City of Kirkland, 2021; FCSG, 2020; BERK, 2021.

### Alternative B Operating Costs

Exhibit 4-9 details general operating costs under Alternative B by departmental category. The largest drivers of operating costs are from Police, followed by Fire, Parks and Community Services, and Internal Services.

**Exhibit 4-9. Alternative B General Operating Costs by Departmental Category, YOES**



Sources: FCSG, 2020; City of Kirkland, 2021; BERK, 2021.

### 4.4.3 Operating Net Fiscal Impact

On both an annual and a cumulative basis, general operating revenues are projected to cover general operating costs under either Alternative. Exhibit 4-10 details cumulative general operating revenues and costs through 2044 for both Alternatives.

**Exhibit 4-10. Alternative A & B General Operating Revenues and Costs - Cumulative, YOY\$**

Type	Alt A	Alt B
General Operating Revenues	58.7M	\$199.7M
General Operating Costs	-\$31.9M	-\$117.5M
<b>Total General Operating Surplus/Deficit</b>	<b>\$26.8M</b>	<b>\$82.2M</b>

Sources: FCSG, 2020; ECONorthwest, 2021; City of Kirkland, 2021; BERK, 2021.

While operating costs are significantly higher in Alternative B to serve new growth in the Station Area, revenues generated by potential future uses are also significantly higher. Under Alternative B, the City is projected to generate a general operating surplus of around \$82.2 million by 2044, around \$55.4 million more than the general operating surplus generated in Alternative A.

As mentioned above, costs stemming from functions funded by permit-related revenue sources and utility operating revenue sources are assumed to be covered by those revenue sources based on increased demand for services in the Study Area and are not included in the analysis above.

## 4.5 Capital Revenues and Costs

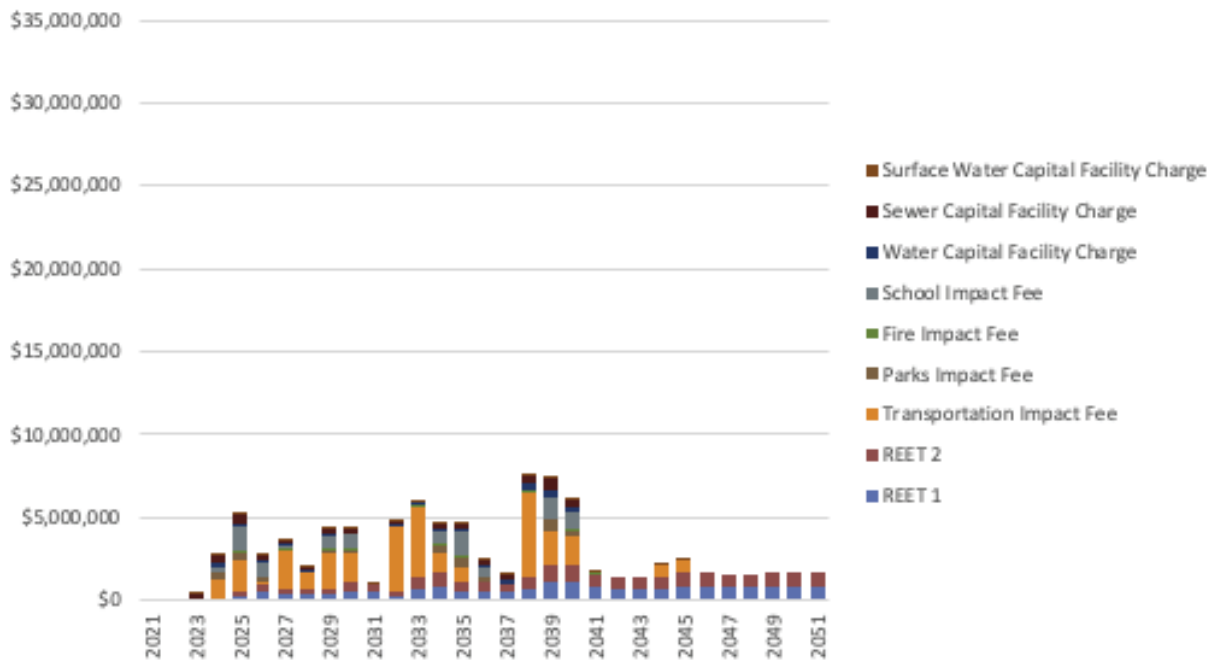
### 4.5.1 Capital Revenues

The following section details projected capital revenues generated from potential future uses under each Alternative. Capital revenues projected include impact fees for parks, fire, school, and transportation; capital facility charges for water, sewer, and stormwater; and Real Estate Excise Tax (REET). Impact fees and capital facility charges were assumed to grow at a rate of 2.90%, derived from a 10-year average of the Engineering News-Record’s Construction Cost Index and consistent with the inflation rate used for the cost of City infrastructure projects upon which these revenues are based. The inclusion of future capital improvements to the Capital Facilities Plan could lead to additional fee increases not assumed within this analysis.

#### *Alternative A Capital Revenues*

Exhibit 4-11 summarizes the capital revenues from potential future uses in Alternative A. REET is collected every year after 2023 when redevelopment begins. Impact fees and capital facility charges are collected in years of development activity. The single largest year of fees is in 2039, at approximately \$7 million. The general shape of revenues is related to development in the Station Area and roughly follows the shape of development shown in Exhibit 2-5.

**Exhibit 4-11. Capital Revenues from Alternative A, YOY\$**

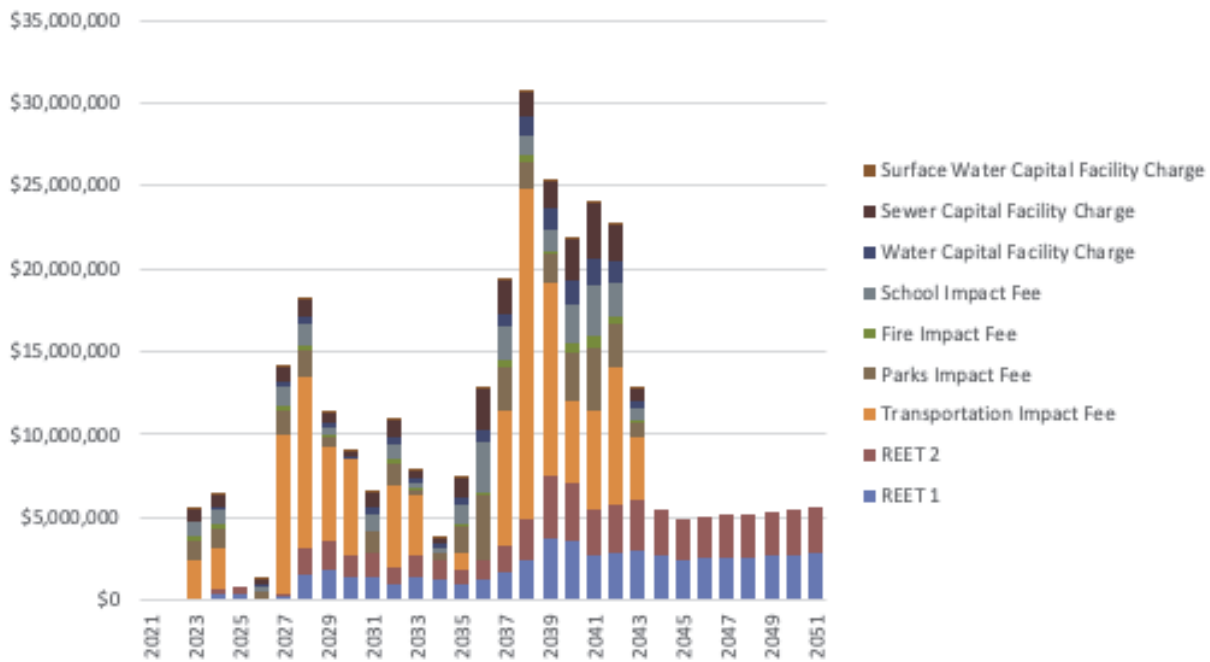


Sources: City of Kirkland, 2021; ECONorthwest, 2021.

**Alternative B Capital Revenues**

Exhibit 4-12 summarizes the capital restricted revenues from potential future uses in Alternative B. As with Alternative A, REET is collected every year after 2023 when redevelopment begins, while impact fees and capital facility charges are collected in years of development activity. The single largest year of fees is in 2039, at approximately \$25 million, largely driven by anticipated developments at the Costco site and in eastern quadrants of the study area.

**Exhibit 4-12. Capital Revenues from Alternative B, YOES\$**



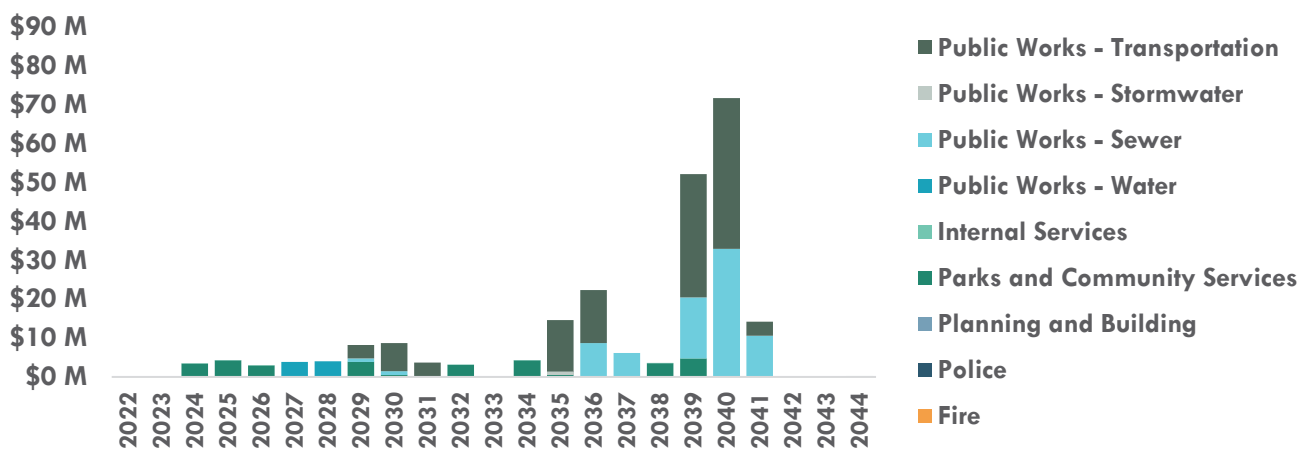
Sources: City of Kirkland, 2021; ECONorthwest, 2021.

## 4.5.2 Capital Costs

### Alternative A Capital Costs

Cumulatively, under Alternative A, the City is projected to need a total of nearly \$265 million in capital funds in order to meet the demands of growth in the Study Area, of which nearly \$34 million is assumed to be funded by development. The largest drivers of capital costs are sewer improvements, transportation improvements, and parks capital needs.

**Exhibit 4-13. Alternative A Capital Costs by Department, YOES\$**



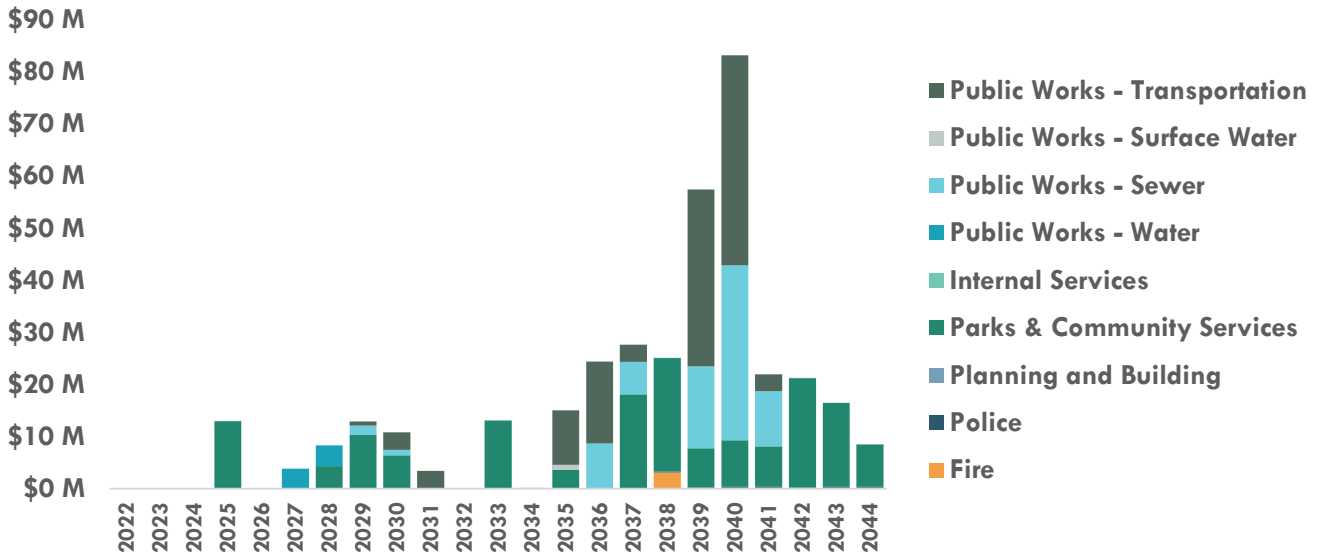
Sources: FCSG, 2020; City of Kirkland, 2021, Fehr & Peers, 2021; RH2, 2021; RKI, 2021; HBB, 2021; BERK, 2021.

Much of the costs from sewer and transportation improvements are projected to occur in 2039 and 2040.

### Alternative B Capital Costs

Cumulatively, under Alternative B, the City is projected to need a total of nearly \$456 million in capital funds in order to meet the demands of growth in the Study Area, of which around \$85 million is assumed to be funded by development. The largest drivers of capital costs are sewer improvements, transportation improvements, and parks capital needs.

**Exhibit 4-14. Alternative B Capital Costs by Department, YOES**



Sources: FCSG, 2020; City of Kirkland, 2021, Fehr & Peers, 2021; RH2, 2021; RKI, 2021; HBB, 2021; BERK, 2021.

The largest capital costs are projected to occur in 2039 and 2040 and consist of transportation and sewer improvements. Transportation in particular has a few large projects during this timeframe which include:

- Kirkland Way Complete Streets (\$34.8 million, 2039-2040) a primarily non-motorized project that includes replacing the Cross Kirkland Corridor (CKC) bridge.
- 124th Ave NE Roadway Widening to 5 Lanes, NE 85<sup>th</sup> St. to NE 90<sup>th</sup> St. (\$20.3 million, 2039-2040).
- NE 85<sup>th</sup> St. Shared Use Trail Improvements, 5<sup>th</sup> St. to Kirkland Way (\$9.8 million, 2039-2040).

Meanwhile, sewer is projected to need 43 different projects in this timeframe which total around \$50 million in costs.

### 4.5.3 Capital Net Fiscal Impact

#### Summary of Capital Net Fiscal Impact

Under either Alternative, significant capital needs are anticipated, with the City is projected to see large shortfalls in covering capital needs unless other funding strategies are implemented. Exhibit 4-15 outlines the projected cumulative surplus/deficit for capital costs and capital revenues through 2044 for both Alternatives. As a note, capital improvements needed in Alternative A are also assumed to be needed in Alternative B as those improvements will be needed to accommodate growth under both scenarios.



**Exhibit 4-15. Alternative A & B Capital Surplus/Deficit Summary – Cumulative, YOES\$**

Type	June Alt A	June Alt B
Dedicated Capital Revenues	\$68.2M	\$252.7M
Development Funded Improvements	\$33.0M	\$84.8M
Total Capital Improvements	-\$265.2M	-\$455.2M
<b>Capital Surplus/Deficit</b>	<b>-\$164.0M</b>	<b>-\$117.7M</b>

Note: Numbers may not add up due to rounding.

Sources: FCSG, 2020; City of Kirkland, 2021, Fehr & Peer’s, 2021; RH2, 2021; RKI, 2021; HBB, 2021; ECONorthwest, 2021; BERK, 2021.

While Alternative B is estimated to generate more in total capital improvements than Alternative A, under Alternative B, significantly more dedicated capital revenues are also estimated to be generated along with more improvements assumed to be funded by development. Compared with Alternative A, this results in a decrease in capital deficit of around \$46.3 million (-\$117.7 million in Alternative B versus -\$164.0 million in Alternative A).

As shown in Exhibit 4-16, in Alternative A, significant shortfalls are projected for transportation, water, sewer, and parks capital improvements. In Alternative B, significant shortfalls are projected for sewer and parks capital improvements.

**Exhibit 4-16. Alternative A & B Capital Surplus/Deficit by Improvement Type – Cumulative, YOES\$**

Capital Improvement Type	June Alt A Capital Surplus/Deficit	June Alt B Capital Surplus/Deficit
Fire	\$1.1M	\$0.6M
Police Fleet and Municipal Facilities	-\$0.4M	-\$1.7M
Transportation	-\$73.4M	\$27.2M
Water	-\$5.3M	\$3.6M
Sewer	-\$70.7M	-\$53.5M
Stormwater	-\$0.5M	-\$0.3M
Parks	-\$14.8M	-\$93.5M
<b>Total Capital Surplus/Deficit</b>	<b>-\$164.0M</b>	<b>-\$117.7M</b>

Note: Surplus/Deficit does not include using general government operating surplus to cover gaps. Numbers may not add up due to rounding.

Sources: FCSG, 2020; City of Kirkland, 2021, Fehr & Peers, 2021; RH2, 2021; RKI, 2021; HBB, 2021; ECONorthwest, 2021; BERK, 2021.

For each type of capital improvement, the City has available strategies that could be pursued in order to cover capital costs in either Alternative.

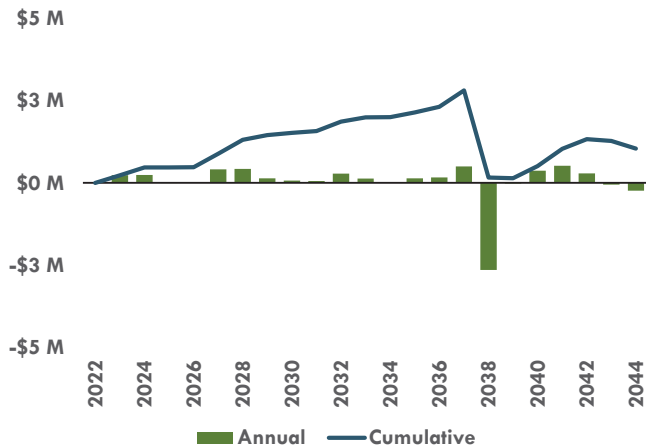
In the following section details the capital surplus or deficit of each type of capital improvement in Alternative B. In cases where there is a deficit, potential funding strategies available to the City to cover costs are included. Additional community benefit strategies may also be relevant and are presented in Section 6.0 .

*By Capital Improvement Type (Alternative B)*

**Fire**

There are no anticipated capital costs in Alternative A. In Alternative B, the Fire Department is projected to have \$4.5 million in capital costs over the study period, consisting of \$3.2 million for an additional ladder truck and aid car in 2038 plus annual replacement costs. Fire capital costs are projected to be covered both by Fire impact fees generated in the Station Area on new development and by using 0.5% of the general government operating surplus (\$400,000) to cover annual deficits in 2038 when the new equipment is needed. Exhibit 4-17 shows both an annual and cumulative summary of Fire capital surplus and deficits over the study period and Exhibit 4-18 summarizes the cumulative surplus and deficit for each Alternative.

**Exhibit 4-17. Alternative B Fire Fleet Capital Surplus/Deficit – City Portion, YOES\$**



Note: Annual and Cumulative Surplus/Deficit includes a portion of general government operating surplus to cover gaps.

Sources: City of Kirkland, 2021; ECONorthwest, 2021; BERK 2021.

**Exhibit 4-18. Alternative A & B Fire Fleet Cumulative Capital Surplus/Deficit, YOES**

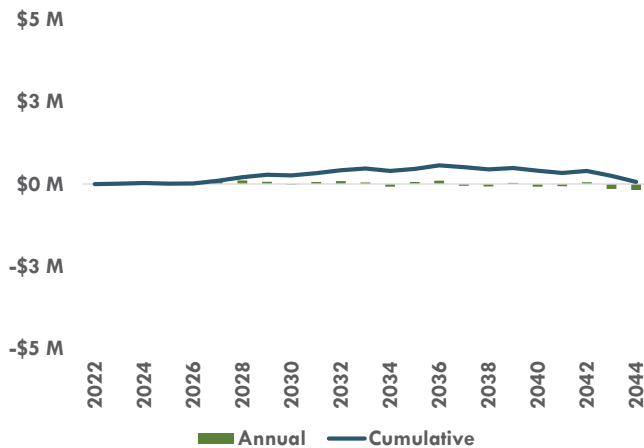
Type	Alt A	Alt B
Fire Impact Fees	\$1.1M	\$5.1M
0.5% of Operating Surplus	N/A	\$0.4M
Total Capital Improvements	N/A	-\$4.5M
<b>Surplus/Deficit</b>	<b>\$1.1M</b>	<b>\$1.0M</b>

Sources: City of Kirkland, 2021; ECONorthwest, 2021; BERK 2021.

**Police Fleet and Municipal Facilities**

In Alternative B, there is a cumulative capital need of \$1.7 million for Police fleet and municipal facility renovations. The Police Department projects a capital need of \$1.3 million to expand their fleet by six vehicles over the study period. While the City overall will need to accommodate an additional 15 FTEs in City Hall at a cost of \$400,000, using a renovation cost of \$18,000 per FTE. There are no dedicated revenues generated by new development for Police or general City operations, but there is enough general operating surplus available to cover these costs. Exhibit 4-9 shows both the annual and cumulative summary of Police fleet and City facilities capital surplus and deficits over the study period when allocating 2.2% of the general operating surplus (\$1.8 million). Exhibit 4-20 summarizes the cumulative surplus and deficit for each Alternative.

**Exhibit 4-19. Alternative B Police and Municipal Capital Surplus/Deficit – City Portion, YOES**



Note: Annual and Cumulative Surplus/Deficit includes a portion of general government operating surplus to cover gaps.

Sources: City of Kirkland, 2021; ECONorthwest, 2021; BERK 2021.

**Exhibit 4-20. Alternative A & B Police and Municipal Cumulative Capital Surplus/Deficit, YOES**

Type	Alt A	Alt B
2.2% of Operating Surplus	\$0.6M	\$1.8M
Police Fleet Capital Needs	-\$0.3M	-\$1.3M
Municipal Facilities Capital Needs	-\$0.1M	-\$0.4M
<b>Surplus/Deficit</b>	<b>\$0.2M</b>	<b>\$0.1M</b>

Sources: City of Kirkland, 2021; ECONorthwest, 2021; BERK 2021.

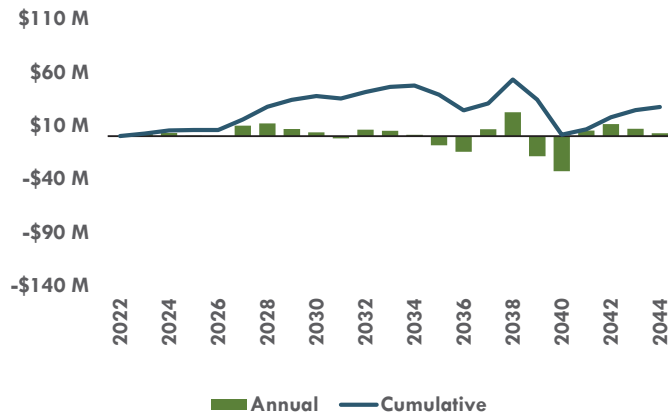
**Transportation**

The City needs to make significant transportation improvements in either Alternative. In Alternative B, there is an estimated total of \$153.4 million in transportation infrastructure improvements needed. Of those, \$36.3 million are assumed to be development funded improvements, leaving \$117.1 million in city costs. The largest City-funded improvements in Alternative B are:

- Kirkland Way Complete Streets (\$34.8 million, 2039-2040, an improvement which requires rebuilding of the CKC bridge and is also assumed under Alternative A).
- 124th Ave NE Roadway Widening to 5 Lanes, NE 85<sup>th</sup> St. to NE 90<sup>th</sup> St. (\$20.3 million, 2039-2040, an improvement also assumed under Alternative A).
- 90<sup>th</sup> St Complete Streets Improvements (\$19.8 million for two projects, 2035-2036, both projects are also assumed under Alternative A).
- NE 85<sup>th</sup> St. Shared Use Trail Improvements, 5<sup>th</sup> St. to Kirkland Way (\$9.8 million, 2039-2040, an improvement that only takes place in Alternative B).

The City’s capital costs can be covered using the transportation impact fees (\$108.8 million) and all the REET 2 (\$35.4 million) generated on new development in the Station Area. Exhibit 4-21 shows both an annual and cumulative summary of transportation capital surplus and deficits over the study period and Exhibit 4-22 summarizes the cumulative surplus and deficit for each Alternative.

**Exhibit 4-21. Alternative B Transportation Capital Surplus/Deficit – City Portion, YOES**



Sources: City of Kirkland, 2021; ECONorthwest, 2021; BERK 2021.

**Exhibit 4-22. Alternative A & B Transportation Cumulative Capital Surplus/Deficit, YOES**

Type	Alt A	Alt B
Transportation Impact Fees	\$30.2M	\$108.8M
100% of REET 2	\$11.9M	\$35.4M
Development-funded Improvements	\$0.0M	\$36.3M
Total Capital Improvements	-\$115.4M	-\$153.4M
<b>Surplus/Deficit</b>	<b>-\$73.4M</b>	<b>\$27.2M</b>

Sources: City of Kirkland, 2021; Fehr & Peers 2021; ECONorthwest, 2021; BERK 2021.

**Water**

The City needs to relocate the water main under I-405, at a cost of \$7.8 million, per WSDOT requirements due to the construction of the BRT in each Alternative.

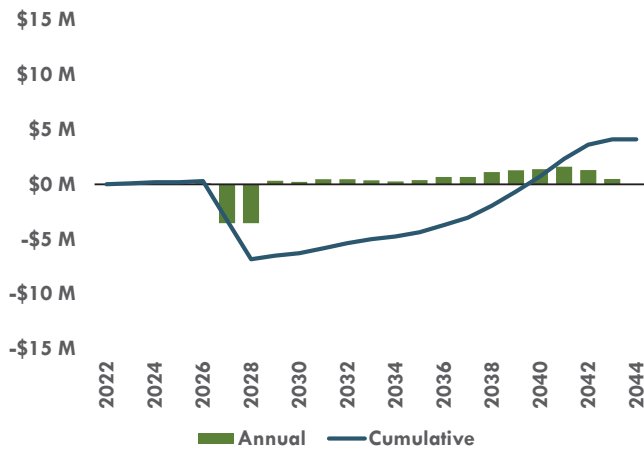
In Alternative B, the City has a total of \$42.1 million identified water improvements, of which \$33.7 million are developer-constructed, leaving one City-constructed improvement. By the end of the study period, there will be \$11.9 million in water capital facility charges generated, but there will not be enough dedicated revenue available in the early years to cover the construction costs in 2027-2028, as shown in Exhibit 4-23. Exhibit 4-24 summarizes the cumulative surplus and deficit for each Alternative.

**Potential financing strategy.** The City can issue a \$10 million 20-year bond to cover the cost of the improvement and maintain an annual surplus. A bond of that amount and length is anticipated to result in annual debt payments of \$685,000. Projected capital facility charge revenue and 7% of net new water utility revenue from growth in the Station Area are projected to be enough to cover the annual debt payments.

In addition, community benefit strategies may also be relevant. Please refer to Section 6.2.1 .



**Exhibit 4-23. Alternative B Water Capital Surplus/Deficit – City Portion, YOE\$**



Sources: City of Kirkland, 2021; RH2, 2021; ECONorthwest, 2021; BERK 2021.

**Exhibit 4-24. Alternative A & B Water Cumulative Capital Surplus/Deficit, YOE\$**

Type	Alt A	Alt B
Stormwater Capital Facility Charges	\$3.0M	\$11.9M
Development-funded Improvements	\$33.0M	\$33.7M
Total Capital Improvements	-\$41.3M	-\$42.1M
<b>Surplus/Deficit</b>	<b>-\$5.3M</b>	<b>\$3.6M</b>

Sources: City of Kirkland, 2021; RH2, 2021; ECONorthwest, 2021; BERK 2021.

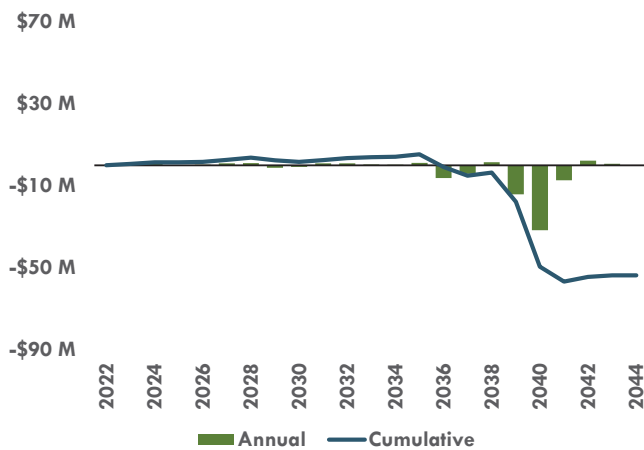
**Sewer**

The City needs to make significant sewer improvements in either Alternative. In Alternative B, the city has a total of \$92.6 million in total identified sewer improvements, of which \$14.8 million are anticipated to be funded by development, leaving a total of \$77.9 million in City-funded costs. A cumulative total of \$24.4 million in sewer capital facility charges are projected to be generated by new development in the Station Area over the study period, but the revenue will not be enough to cover sewer capital costs as shown in Exhibit 4-25. Exhibit 4-26 summarizes the cumulative surplus and deficit for each Alternative.

**Potential financing strategy.** The City can fund sewer improvements with a combination of debt issuance and rate increases. For example, if development followed the modeled growth, issuing a \$60 million 30-year bond in 2035, resulting in \$3.1 million annual debt payments, would cover the cost of needed sewer infrastructure improvements. A rate increase on the overall base would be required to make annual debt payments, because there is not enough sewer capital facility charges or new sewer rate revenue from the Station Area to cover the payments. Because this investment is also required in Alternative A, where there are less dedicated revenues available to offset costs resulting in a larger City deficit, Alternative A requires a larger rate increase than Alternative B.

In addition, community benefit strategies may also be relevant. Please refer to Section 6.2.1 .

**Exhibit 4-25. Alternative B Sewer Capital Surplus/Deficit – City Portion, YOES\$**



Sources: City of Kirkland, 2021; RH2, 2021; ECONorthwest, 2021; BERK 2021.

**Exhibit 4-26. Alternative A & B Sewer Cumulative Capital Surplus/Deficit, YOES\$**

Type	Alt A	Alt B
Sewer Capital Facility Charges	\$5.5M	\$24.4M
Development-funded Improvements	\$0.0M	\$14.8M
Total Capital Improvements	-\$76.3M	-\$92.6M
<b>Surplus/Deficit</b>	<b>-\$70.7M</b>	<b>-\$53.5M</b>

Sources: City of Kirkland, 2021; RH2, 2021; ECONorthwest, 2021; BERK 2021.

In addition to the identified deficit in Alternative B, there is a large capacity project (\$6.9 million) that crosses under I-405 to connect the King County transmission line under the CKC. Based on the input of subject matter experts, this analysis assumes the project will occur early in the study period, since it is needed to serve the higher density in the Station Area and will be completely funded by development. The City will need to closely coordinate this project with the BRT construction, since the project will likely need to be completed at the same time as or before the station. If major redevelopment in the Station Area does not occur before construction of the BRT station, the City may need to construct the sewer capacity project and recover costs through increased connection charges and/or rates. City staff have recommended proceeding with a feasibility study for the project at a cost of \$30,000-\$35,000.

**Stormwater**

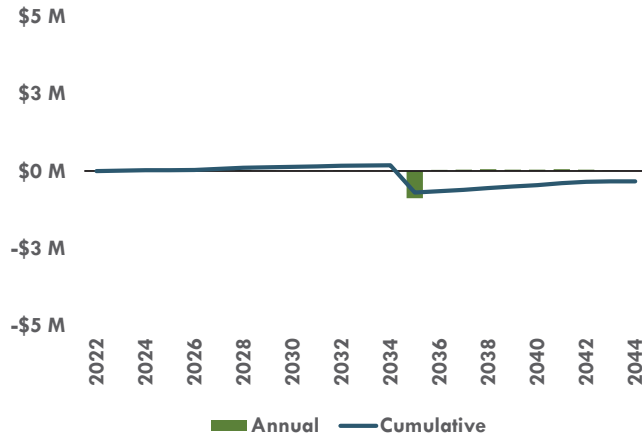
Development of the Study Area under Alternative B will not produce negative stormwater impacts due to current mitigation requirements that will require developed parcels to install large detention systems to reduce the flow off their development and help existing flooding issues. The only proposed stormwater project within the Study Area consists of replacing 520 feet of pipe along 120<sup>th</sup> Ave NE with a smoother pipe material. This will increase capacity through the stormwater main line, helping in all scenarios.

The estimated cost of the pipe replacement is \$0.9 million in the year of construction. Over the study period, stormwater capital facility charges will total \$0.6 million, but in the year that the stormwater pipe

replacement is anticipated there will be a gap of \$0.7 million that will need to be filled. Exhibit 4-27 shows both the annual and cumulative stormwater capital surplus and deficit over the study period and Exhibit 4-28 summarizes the cumulative surplus and deficit for each Alternative.

**Potential funding strategy.** The City can use stormwater capital fund reserves to fill the \$0.7 million gap between the available stormwater facility charges and the infrastructure improvement cost in 2035.

**Exhibit 4-27. Stormwater Capital Surplus/Deficit – City Portion, YOES**



Sources: City of Kirkland, 2021; RKI 2021; ECONorthwest, 2021; BERK 2021.

**Exhibit 4-28. Alternative A & B Stormwater Cumulative Capital Surplus/Deficit, YOES**

Type	Alt A	Alt B
Stormwater Capital Facility Charges	\$0.4M	\$0.6M
Development-funded Improvements	\$0.0M	\$0.0M
Total Capital Improvements	-\$0.9M	-\$0.9M
<b>Surplus/Deficit</b>	<b>-\$0.5M</b>	<b>-\$0.3M</b>

Note: The annual deficit in 2035 is larger than the cumulative deficit at the end of the study period that is shown in this table. This smaller cumulative deficit is due to additional stormwater capital facility charges collected on development after 2035.

Sources: City of Kirkland, 2021; RKI 2021; ECONorthwest, 2021; BERK 2021.

### Parks

In Alternative B, there is a cumulative capital need of \$160.0 million for Parks and Community Services. This estimate is based on the City’s current target levels of service, some of which are acreage derived. Seventy-six percent of the cumulative park capital needs are comprised of acquisition and development of 15 new acres of neighborhood parks and 22 new acres of community parks, which are likely infeasible in the Station Area.

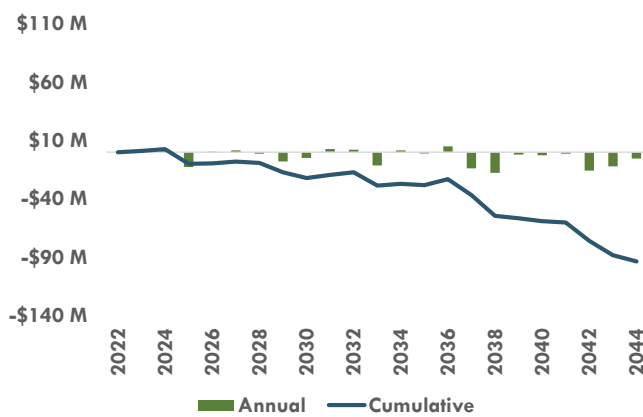
In Alternative B, new development is anticipated to generate \$31.0 million in park impact fees over the study period and an additional \$35.4 million of REET 1 is available to offset costs. Using these available

funds would leave a cumulative gap of \$93.5 million, as shown in Exhibit 4-29. Exhibit 4-30 summarizes the cumulative surplus and deficit for each Alternative.

**Potential funding strategy.** Consider partially offsetting costs using the \$80.0 million remaining in general government operating surplus. This strategy alone will not address parks capital needs.

**A policy change** to how park Level of Service is defined that moves toward equitable park access within walking distance and away from a per-acre approach would also be well suited for the Station Area and could change the amount of park land needed. In addition, community benefit strategies or multi-benefit infrastructure projects that include open space or trails may also be relevant. Please refer to Section 6.2.1 .

**Exhibit 4-29. Alternative B Parks Capital Surplus/Deficit – City Portion, YOES**



Sources: City of Kirkland, 2021; ECONorthwest, 2021; BERK 2021.

**Exhibit 4-30. Alternative A & B Parks Cumulative Capital Surplus/Deficit, YOES**

Type	Alt A	Alt B
Parks Impact Fees	\$4.1M	\$31.0M
100% of REET 1	\$11.9M	\$35.4M
Total Capital Improvements	-\$30.8M	-\$160.0M
<b>Surplus/Deficit</b>	<b>-\$14.8M</b>	<b>-\$93.5M</b>

Sources: City of Kirkland, 2021; ECONorthwest, 2021; BERK 2021.

## 4.6 Summary of Net Fiscal Impact

While it is important to note that restrictions on certain revenue sources exist and, as a result, not all revenues can be applied to certain costs, for contextual purposes, it can be helpful to understand where each Alternative ends up on a total surplus/deficit basis.

Exhibit 4-31 details a comparison of both Alternatives on a total surplus/deficit basis. Major takeaways include:

- Under either Alternative, operating revenues are projected to cover operating needs by 2044.
- Under either Alternative, significant capital needs are anticipated, with the City projected to see large shortfalls in covering capital needs unless other funding strategies are implemented.
- As mentioned, while restrictions on certain revenue sources exist, on a total surplus/deficit basis, under Alternative B, the City’s deficit is significantly lower than what is projected under Alternative A. The City is projected to have a total deficit of around \$35.5 million in Alternative B and a total deficit of around \$137.2 million in Alternative A.

**Exhibit 4-31. Alternative A and B Total Surplus/Deficit – Cumulative, YOES\$**

Surplus/Deficit	Alt A	Alt B
General Operating Surplus/Deficit	\$26.8M	\$82.2M
Capital Surplus/Deficit	-\$164.0M	-\$117.7M
<b>Total Surplus/Deficit</b>	<b>-\$137.2M</b>	<b>-\$35.5M</b>

Sources: FCSG, 2020; City of Kirkland, 2021, Fehr & Peers, 2021; RH2, 2021; RKI, 2021; HBB, 2021; ECONorthwest, 2021; BERK, 2021.

Reasons for differences in the fiscal outlook between Alternatives include:

- Generation of a higher operating surplus in Alternative B relative to Alternative A driven by estimated increases in general operating revenues such as sales and property tax revenues.
- A smaller capital shortfall in Alternative B relative to Alternative A due to estimated increases in dedicated capital revenues such as impact fees, REET, and capital facility charges as well as an increase in capital improvements funded by development.

It is important to note that the City’s CIP looks at project funding for a 6-year window and that future projects are shown as unfunded until they are prioritized into the CIP window. Funding strategies will be developed to address any funding gap that exists under current planning assumptions. The Station Area plan could provide additional funding and community benefit tools to help address capital needs as discussed in Section 6.0 .



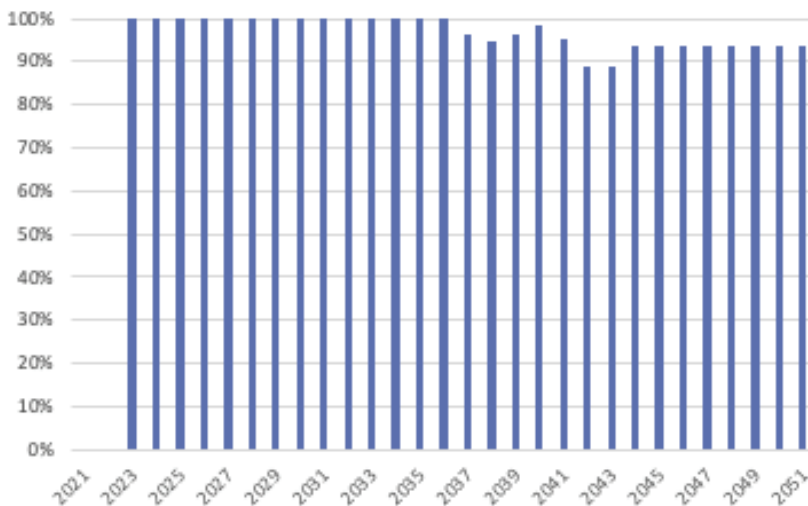
## 4.7 Sensitivity Analyses

### *By Geography, Western Quadrants versus East Quadrants*

City staff have posed a range of sensitivity analyses. In terms of geographic accounting of the revenues, the following question has been posed: How much do the western quadrants contribute to the revenues or are they mostly generated east of I-405?

To address this, the general fund operating revenues for the SE and NE Quadrants for Alternative B are estimated as a proportion of total revenues for Alternative B.

**Exhibit 4-32. East Quadrants Share of Operating Revenues for Alternative B**



Sources: City of Kirkland, 2021; ECONorthwest, 2021.

Exhibit 4-32 demonstrates that the majority of the incremental revenues are generated in the east quadrants. This reflects both the timing (no development in the SW quadrants begin before 2037) and the scale of the development that occurs on the east quadrants.

### Infrastructure Costs

Based on geography, anticipated infrastructure costs driven by development in western or eastern quadrants in the study area under Alternative B are outlined in Exhibit 4-33 and described below as follows:

- For water capital improvements, City-funded improvements are largely driven by developments in the eastern quadrants of the study area at around \$8.2 million, which represents around 96% of total City-funded water capital improvement costs. This is primarily due to the previously mentioned need for relocating a water main under I-405 per WSDOT requirements (\$7.8 million). City-funded water capital improvements in the western quadrants of the study are projected to be around \$0.2 million.
- For sewer capital improvements, the majority of City-funded improvements are driven by developments in the western quadrants of the study area at around \$60.3 million, which represents around 77% of total City-funded sewer capital improvement costs. The need for total sewer capital

improvements is both larger in western quadrants versus eastern quadrants (at a ratio of around 2:1, respectively) while nearly all development-funded sewer improvements in study area are driven by development in the eastern quadrants.

- For stormwater capital improvements, the only stormwater capital improvement projected to be needed is driven by developments in the eastern quadrants of the study area at \$0.9 million. No stormwater capital improvements are driven by developments in the western quadrants of the study area.
- For transportation capital improvements, City-funded improvements are more evenly split between being driven by developments in western versus eastern quadrants of the study area (57% versus 43%, respectively). All development-funded improvements are projected to occur based on developments in eastern quadrants of the study area.

**Exhibit 4-33. Alternative B Infrastructure Costs, West vs. East Quadrants of Study Area, YOES\$**

Capital Improvement Type	West	East
<b>Water</b>		
Development-funded Improvements	\$17.3 M	\$16.5 M
<b>City-Funded Improvements</b>	<b>\$0.2 M</b>	<b>\$8.2 M</b>
Total Capital Improvements	\$17.4 M	\$24.7 M
<b>Sewer</b>		
Development-funded Improvements	\$0.1 M	\$14.7 M
<b>City-Funded Improvements</b>	<b>\$60.3 M</b>	<b>\$17.6 M</b>
Total Capital Improvements	\$60.3 M	\$32.3 M
<b>Stormwater</b>		
Development-funded Improvements	\$0.0 M	\$0.0 M
<b>City-Funded Improvements</b>	<b>\$0.0 M</b>	<b>\$0.9 M</b>
Total Capital Improvements	\$0.0 M	\$0.9 M
<b>Transportation</b>		
Development-funded Improvements	\$0.0 M	\$36.3 M
<b>City-Funded Improvements</b>	<b>\$66.2 M</b>	<b>\$50.8 M</b>
Total Capital Improvements	\$66.2 M	\$87.2 M

Note: Numbers may not add up due to rounding.

Sources: FCSG, 2020; City of Kirkland, 2021, Fehr & Peers, 2021; RH2, 2021; RKI, 2021; HBB, 2021; ECONorthwest, 2021; BERK, 2021.

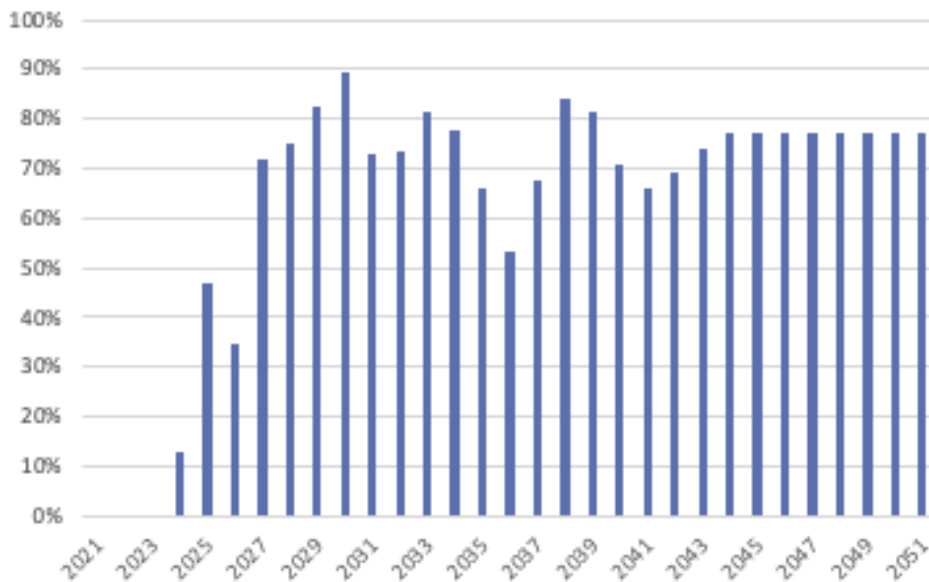
In terms of overall capital costs, it is challenging to do a detailed evaluation of capital needs and resources generated in different areas of the Study Area as many of the projects serve the full area

overall. In general terms, development-funded capital projects and capital-related revenues generated in the eastern quadrants are important to funding improvements in the western quadrants, particularly the multimodal improvements west of the BRT station.

*By Commercial versus Residential Development, Eastern Quadrants*

A related question to the development occurring on the eastern quadrants is how much does the commercial component account for the total amount of revenue in these quadrants. To address this, the commercial components of the general fund operating revenues for the SE and NE Quadrants for Alternative B are estimated as a proportion of their total revenues.

**Exhibit 4-34. Commercial Portion of East Quadrants Share of Operating Revenues**



Sources: City of Kirkland, 2021; ECONorthwest, 2021.

Exhibit 4-34 demonstrates that the majority of the incremental revenues are generated by the commercial components of the east quadrants.

**Operating Costs**

In the eastern quadrants, anticipated impacts to operating costs projections based on if currently projected commercial development in eastern quadrants of the study area were to instead develop as a residential development are outlined in Exhibit 4-35 and described below is as follows:

- Drivers for Police and Parks and Community Services are more strongly tied to residential development than other departmental functions. If commercial properties redevelop as residential, these costs would be expected to increase.
- Internal Services costs are a function of non-Internal Services operating costs and are expected to increase if commercial properties redevelop as residential, but to a lesser degree than Police and Parks and Community Services.
- Drivers for Fire, Planning and Building, and Public Works are less dependent on the distinction between commercial and residential properties and are not anticipated to be significantly impacted

if commercial properties redeveloped as residential. Operating costs are anticipated to be similar for both residential and commercial properties for Fire, Planning and Building, and Public Works costs.

**Exhibit 4-35. Operating Cost Comparison, Commercial vs. Residential**

Operating Cost Category	If Commercial is developed as Residential, costs would:
Fire	
Police	 (\$\$)
Planning and Building	
Parks and Community Services	 (\$\$)
Public Works	
Internal Services	 (\$)

**Legend**

-  Stay relatively similar
-  (\$) Go up a small amount
-  (\$\$) Go up

# 5.0 Community Benefits Analysis

## 5.1 Community Benefits Framework

### 5.1.1 Study Goals and Purpose

Based on the findings of the DSEIS, the Kirkland City Council requested additional information to understand the costs and benefits associated with growth Alternatives for the Study Area. This section focuses on community benefits. In particular, it aims to answer the following questions:

- How can the public receive benefits of growth?
- How can development increase schools, affordable housing, open space, transit/bike/walk connections, and sustainability?

This section is broken into two parts. Section 5.2 reviews how the concept of residual land value analysis was used to study the potential for value capture associated with different scales and types of development in each Alternative. Section 5.3 identifies a series of policy options for capturing the value of development and providing community benefits as defined below.

### 5.1.2 Analysis Approach and Priority Benefits Studied

The analysis focused on five areas of community benefits to study. These were chosen based on community feedback, City Council and Planning Commission direction, and initial findings from the DSEIS and 2020 Opportunities and Challenges report.

#### *Schools*

As identified in the DSEIS, the levels of growth in each Alternative would require additional school capacity. Although school facilities are the responsibility of the Lake Washington School District, this analysis looked at opportunities for the City to help encourage innovative partnerships or other strategies for supporting the need for additional school capacity within the Study Area.

#### *Parks & Public Realm*

The City has identified the need for additional parks, open space, and public realm improvements to serve the additional housing and jobs assumed in each growth Alternative. This analysis focuses on strategies for providing new parks through both on-site facilities as part of development and standalone parks and other recreation opportunities.

#### *Affordable Housing*

Providing housing choices across a range of housing types, incomes, and needs has been identified as a priority throughout the Station Area planning process. This analysis looked at opportunities to generate funds to support affordable housing beyond the City's existing affordable housing regulations (such as



inclusionary zoning) as well as market-rate housing production, and other ways to address the current jobs/housing imbalance in the Station Area.

### *Sustainability*

This analysis focused on how development can support a range of sustainability objectives, including carbon reduction, increased green infrastructure, and green building. This analysis focused on how development can support a range of sustainability strategies and objectives, including reduction of carbon emissions, increased green infrastructure, and green building.

### *Mobility*

As part of an initial step in this supplemental study, additional transportation modeling was done to better understand the vehicular infrastructure needs for each growth Alternative. This portion of the analysis focused on additional mobility options, including cycling, walking, and transit use. As part of this work, a representative transportation improvements project list was developed to understand fiscal impacts of these improvements. This project list and associated costs and tradeoffs are covered in the Fiscal Impacts Study portion of this memo.

## 5.2 Understanding Potential for Value Capture to Deliver Community Benefits

### 5.2.1 Approach

Certain public investments and regulatory changes can increase development potential and/or the value of existing development in the affected area. State and local governments have a number of mechanisms to “capture” the incremental real estate value created by public investments or regulatory changes to provide community benefits. These mechanisms are often modifications or extensions of existing public funding sources and requirements. They generally either impose fees or requirements to provide public benefits on new development (e.g., impact fees, affordability requirements) or derive revenue from occupancy and use of the completed development (e.g., property taxes, user fees).

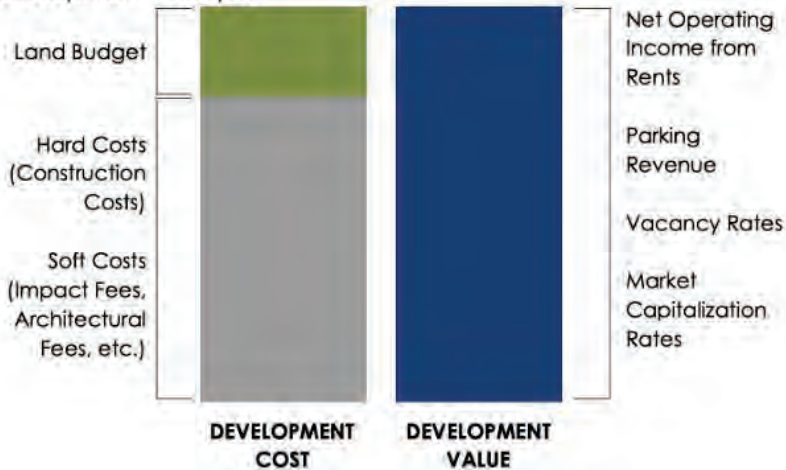
#### *Estimating Financial Feasibility of New Development Using Residual Land Value*

To understand whether and to what degree the increased development entitlements considered in June Alternatives A and B create potential for value capture to provide additional community benefits, ECONorthwest used pro forma financial analysis to estimate the feasibility of the total allowed new development assumed in each Alternative. The analysis used the same development prototypes (realistic building forms and densities consistent with each Alternative’s future land use assumptions) as the fiscal impacts analysis and the level of growth as established in the June Alternatives A and B as described above. The pro forma model estimates residual land value (RLV)—a developer’s land budget—as an indicator of development feasibility. RLV reflects how much a developer would be willing to pay for land or a property intended for (re)development after considering the estimated value of the completed new development; typical development costs including demolition, design, construction, and local fees; and the typical investment returns needed to secure financing. This analysis did not include any proposed policy changes and assumed existing city impact fees and policies. This is illustrated in Exhibit 5-1.

## Exhibit 5-1. Residual Land Value

### Residual Land Value is Budget available for Land Costs

Feasible Development Example



Sources: ECONorthwest, 2021.

The RLV estimates offer a snapshot of what development feasibility looks like for the planned types of growth in the area based on typical development costs, estimated rents for new development, and approximate values of existing property. They are not intended to predict outcomes at a site level, for several reasons:

- Although site- and project-specific conditions can influence costs and return expectations, the pro forma model and RLV estimates are intended to reflect typical development conditions, rather than the specific conditions of individual developments. For example, development built for a single specific end-user often has different development feasibility criteria than development built to meet broader market demand for a certain type of space.
- The value of existing property is estimated based on the assessor’s tax rolls—a readily available but imperfect predictor of market value.
- The development assumptions also can (and will) change over the planning period, but this analysis offers a point-in-time evaluation of what is financially feasible. In this case, residential and office rents were assumed to increase in the Study Area with the arrival of BRT and other public investments in the area and the increase in demand reflected by nearby recent developments. Thus, the anticipated market conditions for the Study Area are more like those currently found in other nearby urban centers (e.g., Bellevue) than today’s rents within existing buildings in the Study Area. Depending on the timing of new development, market conditions may differ from those modeled for this analysis.

A prototype can be considered financially feasible for development if the RLV (the developer’s land budget) exceeds the value of the existing property. In this situation, a developer can potentially reach a deal with the property owner if the property comes up for sale. If the RLV is lower than the value of a site, the project would not be financially feasible unless market conditions or investment return expectations change. However, RLV alone does not indicate that a property *will* redevelop, only that it *could* redevelop, if:

- The property owner decides to make the property available for sale and is willing to accept the estimated market value for the property.
- There is sufficient demand from the intended end user(s) of the new development to “absorb” the space as it is developed (this will tend to limit the amount of new construction at any given time).
- There is a developer with interest and ability to develop the type of space that is financially feasible and they face similar costs and financial return expectations as the typical values modeled.
- Other potential uses of the property (e.g., renovation/improvements to the existing building) would not be financially competitive with redevelopment.

*Residual Land Value as an Indication of Potential for Community Benefits and Value Capture*

If the RLV exceeds the estimated value of the existing property by a sufficient margin, this suggests that the new development may be able to bear the cost of providing additional public benefits and remain financially feasible. As shown in Exhibit 5-2, the remaining RLV after the actual cost of site acquisition is potentially negotiable between the property owner, developer/end user, and the public sector. However, some of this remainder is needed to provide the developer room to negotiate with the property owner to ensure a viable deal is possible. Seeking to “capture” all of this remaining value risks making development infeasible. If project-specific costs and revenues are known with some certainty, the public sector can have greater confidence pushing for greater degrees of value capture. However, because the analysis uses typical costs and market conditions and estimated values for existing property at a Station Area scale, the margin for error relative to a specific individual development is high. Given this, seeking to capture less of the remaining RLV is appropriate so that development remains feasible through fluctuating market conditions, escalating construction costs, or higher-than-expected site acquisition costs.

**Exhibit 5-2. Residual Land Value**



Sources: ECONorthwest, 2021.

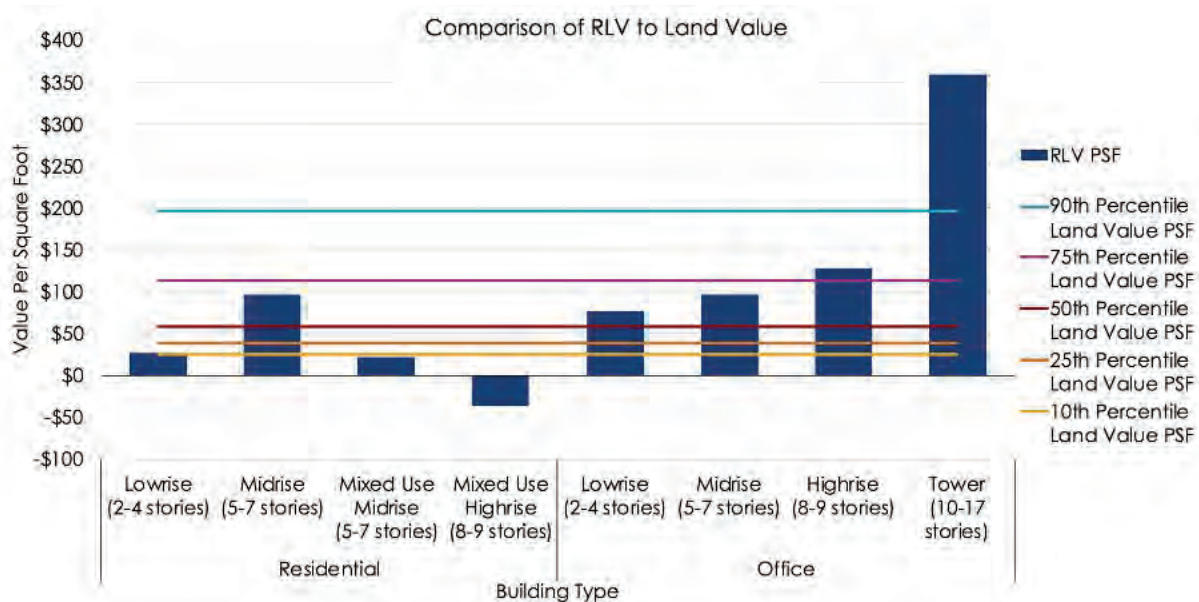
The analysis is intended to provide an indicator of which types and scales of development may be financially feasible enough to offer potential for value capture, not to calculate specific dollar amounts that could be captured from development. It is also beyond the scope of this project to calibrate specific mechanisms for community benefits/value capture.

## 5.2.2 RLV Alternatives Results

### Results

ECONorthwest’s analysis showed that RLV varies substantially by land use and scale, as shown in Exhibit 5-3. The dark blue bars indicate the RLV per square foot of land for various scales of residential and office development. The various colored lines indicate percentile thresholds of the value of the existing property in the commercial corridor of the Study Area on a per-square-foot basis.

**Exhibit 5-3. Comparison of Residual Land Value to Land Value**



Sources: ECONorthwest, 2021.

This shows:

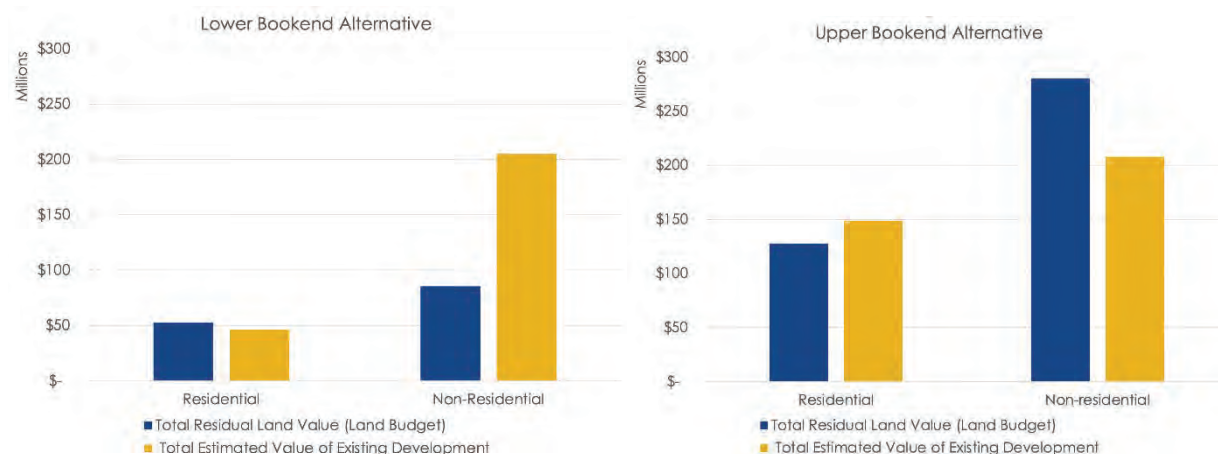
- For residential development, midrise development (5-7 stories) without ground-floor commercial appears to be most feasible.
  - Lowrise development may be feasible in locations with lower land cost (vacant land, or within residential infill areas), but is unlikely to support redevelopment within the commercial corridor.
  - Including ground floor commercial in midrise residential (“Mixed Use Midrise”) increases development costs to the point that development is less likely to be feasible.
  - Given the need to change to a different construction type under current building code, highrise residential development (8 or more stories) is not likely to be financially feasible under anticipated market conditions, even if land were free.
- For office development, feasibility increases with scale, so long as there is sufficient demand for high-end office space to support very large developments.
- Office development typically uses different construction types than residential development (steel, concrete, or sometimes mass timber), particularly for midrise development. Projected office rents in this area are high enough that value is projected to exceed costs even with these higher cost construction types.

These differences across land use and building scale are reflected in the approximate aggregate RLV of each Alternative, shown by the dark blue bar in Exhibit 5-4. The yellow bar shows the estimated total value of existing development on the sites identified for possible redevelopment in each Alternative. Where the yellow bar is larger than the blue bar, this means that although individual redevelopment and infill projects may be financially feasible and may have some potential for value capture, there are more sites where redevelopment is not financially feasible in the near-term, even without additional value capture measures. Where the blue bar is larger than the yellow bar, this suggests that there are more potential redevelopments where value capture may be possible near-term, or that those that are feasible have greater value capture potential.

The larger bars for non-residential development in Alternative B (Upper Bookend Alternative) reflect the greater financial feasibility of larger scale office development types. While these aggregate results point to the overall performance of different scales and types of development, it is important to note that they represent an approximate snapshot of the collective value capture potential of the development in each Alternative; they do not forecast development timing or account for project-specific conditions. For that reason, Alternative-level results are best understood as directional and order of magnitude results rather than specific dollar amounts that would be available for value capture.

- This preliminary analysis suggests substantially greater value capture from June Alternative B, with potential for tens of millions of value capture from feasible development, primarily from non-residential development in the northeast and southeast quadrants.
- There is likely to be little potential for value capture in the northwest and southwest quadrants in either June Alternative.
- Residential development is already subject to affordability requirements and is providing community benefits in the form of affordable housing units; while there may be additional potential for value capture, pushing this further could jeopardize feasibility for some residential development, which could result in less housing production subject to the existing inclusionary requirements for affordable housing.

**Exhibit 5-4. Summary of Residual Land Value**



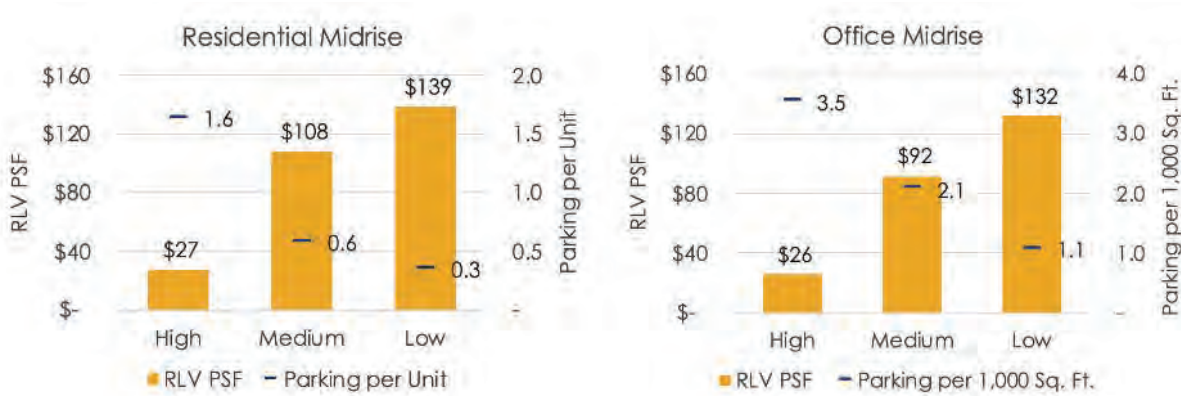
Sources: ECONorthwest, 2021.



Additional testing showed that RLV is also highly sensitive to parking ratio, as shown in Exhibit 5-5. The prototypes tested for Alternative B assume “Medium” parking ratios, which roughly reflect developers’ desired parking ratios in this type of environment. In contrast the “High” parking ratios reflect current zoning. (“Low” parking ratios were tested for comparison but would require district parking strategies and/or changes to travel behavior to make these parking ratios viable in the market.)

- These results show that reducing parking requirements is an important part of creating potential for value capture in the Study Area.

**Exhibit 5-5. Residual Land Value Sensitivity to Parking**



Sources: ECONorthwest, 2021.

### Summary of Key Findings

- Allowing tower-scale office buildings (10 or more stories) in the Study Area could create substantial potential for value capture, if there is sufficient demand to support multiple large-scale office developments.
- Office development in the 5- to 9-story range can also offer substantial potential for value capture, even if to a lesser degree than tower-scale buildings. This type of development could be feasible across much of the commercial portion of the Study Area, but the pace of office development will be limited by regional market demand and Kirkland’s ability to absorb new development.
- Where midrise (5- to 7-story) residential development is feasible it may be able to provide some additional community benefits, in addition to the affordability set-asides that are already required. However, some of the areas identified for midrise residential use may not be feasible for redevelopment in the near-term and increasing affordability requirements or adding other costs as a means of value capture could delay redevelopment further on those sites.
- For both residential and non-residential development, reducing required parking ratios is an important aspect of the potential for value capture. Without such a reduction, the potential for value capture will be much less.
- This preliminary analysis shows the most value capture potential in Alternative B, with potential for tens of millions of dollars of additional value capture beyond Alternative A, primarily from non-residential development.

## 5.3 Community Benefits Strategies

As part of this analysis, a range of possible strategies were studied for their potential to realize benefits to the community from development. Based on this initial scan, the following strategies were identified as tools that could work well together as part of an overall framework for realizing community benefits for Kirkland in support of the Station Area Plan project objectives. The strategies that were identified as relevant to the project to achieve priority benefits identified by the City are described below.

### 5.3.1 Tax Increment Finance (TIF)

#### *Overview*

Tax Increment Financing (TIF) is a common tool in other states that was recently authorized by state legislation for the first time in Washington. TIF allows a jurisdiction to capture the future value of public investments and catalyze growth. In a typical TIF, a city designates a geographic area in which a public investment is needed. The city then freezes assessed values for that area for a finite time period (typically 15-25 years). Based on a project analysis that identifies the likely increase in assessed values in the TIF district after the investment, the city can issue bonds to raise the funds necessary to complete the infrastructure investment. In subsequent years, as increased revenues begin to accrue, the city uses those proceeds to service the debt.

This tool has been common in most states for many years but has not been widely used in Washington State. Recent legislation (ESHB 1189) removes previous limitations on TIF in Washington State. Some of the guidelines from that legislation include that no city can have more than 2 TIF areas at a time, no TIF can exceed a Base AV of \$200 million or 20% total Jurisdiction assessed valuation (whichever is less), and the TIF district can last no more than 25 years. In addition, the city must make a finding that the provision of the infrastructure enables development to occur in a way that it would not have happened absent the infrastructure investment (this could include enabling the entire development or aspects of the scale and/or use of a project).

#### *Community Benefit Potential*

One of the advantages of a TIF is that it is a flexible tool, as long as the TIF-supported investment is publicly owned and is linked to community improvements and investment. It can be used to help catalyze development by supporting needed infrastructure improvements. This analysis has identified multi-benefit projects, parks, public realm, and mobility as the community benefits that would be the best candidates for a TIF.

**Multi-Benefit Projects:** Infrastructure projects that combine multiple benefits through improvements should be prioritized as TIF candidates. Some examples include transportation improvements that include linear open spaces or trail connections; or stormwater facilities that also provide parks or open space. A next step to identify such multi-benefit projects is to review the range of representative infrastructure improvements and seek areas of alignment. There may also be potential for other large representative infrastructure projects to be a good fit for a TIF. A review of gaps for such projects is warranted, to identify any further TIF candidates, especially if they are deemed important to catalyze future development.

**Parks:** While smaller open spaces and neighborhood parks can be provided through a density bonus program (see Section 5.3.3 Density Bonus and Baseline Requirements), larger community-serving parks

could be easier to provide through a TIF. The capital needs analysis indicated that current LOS would require 22 acres of community parks in the Station Area. The TIF could cover site acquisition and development costs. The City should also consider the potential of multi-benefit projects as TIF candidates, such as streetscape improvements inclusive of linear open spaces or trail connections which have been identified as aligned with Parks purpose and need for this area.

**Transportation Infrastructure:** There are several potential transportation projects that would support future development in line with Station Area Plan goals, including public realm improvements to 120<sup>th</sup> Ave NE that could be a part of a multi-benefit project, additional bicycle/pedestrian improvements to the interchange, and other road improvements.

**Shared Facilities:** As a newly enabled tool in Washington State, more study is needed to understand whether shared facilities with other agencies like the LWSD can be funded through a TIF. If possible, partnering with LWSD to address the need for additional school capacity could be a valuable use case, especially if this is a priority topic for the City.

### *Considerations for 85<sup>th</sup> SAP*

- A TIF is most effective in areas that are most likely to have significant property value increases.
- Given the assessed value guidelines in the TIF legislation, only a subset of Study Area parcels could be included in a TIF. Note that the location of the investment does not have to fall within the TIF district (e.g., a water facility can be constructed outside the TIF district but serve the TIF district parcels). A preliminary review indicates that were all northeast and southeast areas of change indicated in June Alternative B to be included in a TIF district, that boundary would approach or slightly exceed the legislated \$200 million assessed value limit.
- Improvements that are the best fit for a TIF are ones that are unlikely to happen through typical CIP, critical to make desired development possible, and ideally can provide multiple benefits.
- TIF districts are financed against projected future value of development, but the city is responsible for servicing the debt even if the projected development does not materialize. It is important to think carefully about how much growth is realistic and set the total TIF value accordingly.
- It is important to note that the incremental City property taxes from new development are reflected in the operating revenues in the fiscal analysis. If TIF is used to bond against those revenues, allowing improvements to be made in advance of the revenues being realized, this would reduce the operating surplus discussed earlier, but would allow infrastructure improvements to be made earlier in the timeframe.
- Based on the assumptions in other sections of this report, a preliminary estimate of potential TIF revenues under HB 1189 suggests that TIF may be able to support between \$50 to \$75 million (2021\$ assuming 25 years of revenues discounted at 3.5%) in debt for infrastructure projects. These figures rely on the speculative plans for the timing, use, and scale of development in certain areas of development east of I-405 in the east quadrants.
- A TIF study would be the next step to determine an appropriate geographic area for a TIF, estimate potential revenue, and narrow specific projects that should be funded through a TIF.

## 5.3.2 Commercial Linkage Fees

### Overview

Linkage fees “link” new development with the increased demand for affordable housing. These fees are typically charged to developers based on a per square foot fee established for specific uses like commercial or retail. Less commonly, linkage fees can be packaged with a Linkage Fee program as well. Fees as set are based on a nexus study that demonstrates the rationale and relationship between the development and the fee that is charged. Linkage fees are used widely throughout the U.S., particularly in communities facing acute housing pressures from rising land values and strong commercial development markets.

### Community Benefit Potential

By collecting mandatory fees associated with commercial development, a community can generate the funds necessary to provide more housing options. Funds generated through linkage fees can support a wide range of housing goals, including family-friendly housing, workforce housing, affordable housing, supportive housing. Some examples of linkage fees and their outcomes include:

- **Seattle MHA Program:** This program charges a fee to commercial development and offers a fee-in-lieu option for residential inclusionary zoning requirements. Fees range from \$7.64-\$35.75 per sq ft for residential and \$5.58-\$16.17 for commercial depending on zoning and location. A recent report by the Seattle Office of Housing found that MHA has collected \$96.1 million over a two-year period from 2019-2020 with contributions from 259 MHA-eligible projects.
- **Boston Commercial Linkage Program:** Boston, MA has one of the oldest and most robust commercial linkage programs in the country. Boston’s linkage fee only applies to commercial developments over 100,000 square feet. Another important feature of Boston’s program is that it dedicates a small portion of the fee to workforce development as well as affordable housing production.
- **Additional Commercial Linkage Fee Programs:** Linkage fees are common in many Bay Area cities facing housing pressure from commercial development such as San Francisco, Berkeley, San Jose, and Napa. Within the Puget Sound region, Bothell is in the process of developing commercial linkage fees.

### Considerations for 85<sup>th</sup> SAP

- Potential revenue generation from a Commercial Linkage program would be dependent on a range of factors. These factors include the eventual amount and type of development that is built in the Station Area, City policies like required parking ratios, as well as the specific fee rates and policies of the potential Commercial Linkage program itself. Understanding that these factors would influence the total value capture potential, the amount of non-residential growth represented in June Alternative B may have the potential to generate in the range of \$10-\$50 million should all the allowed development capacity be built within the 23-year planning horizon. More analysis through a nexus study would be required to better evaluate potential policies and establish a linkage program.
- It is important to balance the need for additional housing while maintaining the development feasibility of commercial projects. A nexus study would be the next step to address this consideration

by showing the increase in demand for affordable housing that accompanies new non-residential development. As part of a nexus study, recommendations on fee schedules and policies would be developed.

- Set clear targets for affordable housing production by AMI, bedroom mix, and other parameters. Supporting workforce development programs may help to address the current jobs/housing imbalance within the Station Area. Similar to Boston’s program, the City should consider a workforce development component of a potential linkage program which would allocate a portion of the fees collected toward workforce development programs.
- Look for opportunities to incentivize co-location of amenities like community rooms, childcare spaces, and small open spaces as a part of required active frontages or open spaces in Linkage program funded affordable housing development. This can serve to maximize community benefit of public investment, while not reducing the capacity of a particular site to maximize affordable housing provision. The Puget Sound Early Learning Facilities Fund is an example of an aligned program.
- Consider a linkage program as part of a larger housing policy framework that includes the City’s current inclusionary zoning policies, MFTE policy, and other tools.

### 5.3.3 Density Bonus and Baseline Requirements

#### Overview

Density bonus programs, also known as incentive zoning programs, allow additional development in exchange for the developer providing community benefits. Under a typical density bonus program, new zoning establishes a base development allowance in each zone. Certain zones are eligible for an additional increase in development up to a maximum development amount. In exchange for this additional development, the developer provides public benefits through fee-in-lieu or direct provision of the amenity. In many density bonus programs, developers can select from a menu of benefits to provide on a points-based system, with specific point totals tied to specific development increases. This point-based approach has two benefits. First, it allows communities to accomplish several public benefit goals through a single program. City staff can weigh the value of different benefits to prioritize benefits based on need or value to the community. Second, this points-based approach provides flexibility for developers, which increases the likelihood they will participate in the program.

#### Community Benefit Potential

One of the advantages of a density bonus program is that it can support a number of different community benefits. This analysis identified parks, schools, and sustainability (including public realm improvements) as the benefits with the greatest potential to be realized through density bonus programs. Examples of the kinds of benefits that could be provided include:

**Parks:** Developers provide on-site open space or pay a fee into a parks fund. Density bonus programs have shown themselves to be particularly effective for small pocket parks, plazas, roof decks and other open spaces that can be integrated into large developments.

**Schools:** In land-constrained locations like the Study Area, applicants can provide educational space on-site. This can include childcare or educational space integrated into the development or by setting aside land for future school development.



**Sustainability:** Sustainability features and performance are one of the most common objectives to be incentivized through density bonus programs. Two approaches include listing specific sustainability features to be provided (green infrastructure, solar arrays, etc.) or identifying third-party sustainability certifications that can serve as demonstration of sustainability benefits (eg: LEED, WELL).

**Mobility:** Mobility and transportation demand management to support safe connections for people of all ages and abilities is a core value and project objective. A series of transportation demand management (TDM) strategies including policies and programs can be found in the Transportation Supplemental Study Appendix 1. These TDM strategies are recommended to be incorporated into June Alternative B to help manage representative infrastructure needs, improve mobility, and increase potential revenue capture. In reviewing these potential strategies, the City should consider which are appropriate as baseline requirements and which are best suited for development incentives.

### *Considerations for 85<sup>th</sup> SAP*

- Identify which benefits are the highest priority, and establish a points system that reflects those priorities
- Base development standards should be calibrated so that all development is held to an acceptable minimum standard of public benefit provision through other strategies like mandatory impact fees and design standards. The City should consider modifications to existing policies as they establish baseline standards for the Station Area. This analysis found that topics including park LOS, active frontage definition, parking ratios or other transportation demand management strategies, and mid-block pedestrian connections should be considered.
- Bonus allowances should be calibrated so they create a sufficient incentive to attract participation from developers. Coordinate a comprehensive scan of existing and potential policy changes together with a Density Bonus Program.
- Analysis shows that current Park LOS would necessitate 15 acres of neighborhood parks in the Station Area. While smaller open spaces are a good candidate for base requirements and bonus incentives, the City should also consider shifting their park LOS policy away from per acre standards toward geographic equity of park access within walking distance and inclusion of school facilities and non-city parks in walking distance.
- School development parameters and needs as provided by Lake Washington School District should be considered for inclusion.
- Identify partnership opportunities to advance priority community benefits through program alignment or potential co-benefits. Possible topics that should be explored include Shared Use of community facilities and public open space, integrated early education and childcare facilities, workforce development and green infrastructure programs, as well as sustainability, climate action, and health and well-being initiatives.

Based on the current understanding of the City's priorities and objectives, the team prepared a potential structure of base requirements and bonus incentives for consideration in Exhibit 5-6.

**Exhibit 5-6. Potential Structure of Base Requirements and Bonus Incentives.**

<b>Community Benefit</b>	<b>Baseline Examples</b>	<b>Bonus Examples</b>	<b>Notes</b>
<b>Affordable Housing</b>	Existing inclusionary zoning requirements, Commercial linkage	Additional inclusionary units or fees	
<b>Sustainability and Mobility</b>	Existing landscape, stormwater code, and energy code standards; Basic third-party sustainability certifications aligned with market expectations; Basic Transportation Demand Management (TDM) strategies	More ambitious certification with third-party sustainability programs like LEED, Built Green, Passivhaus, Living Building Challenge, or similar; Tree canopy; off-site contributions to Tree canopy or Stream improvements; More ambitious energy code standards; Advanced Transportation Demand Management (TDM) strategies	Example strategies commonly included in green certification programs include energy reduction, green infrastructure, and sustainable materials.  Example Transportation Demand Management Strategies include reduced parking provision, shared and paid parking, and provision of transit passes.
<b>Schools &amp; Community Amenities</b>	Existing school impact fees	Provision of on-site educational, childcare, or community space	Requires coordination with LWSD and other aligned Early Education and community service providers
<b>Public Realm</b>	Existing setbacks and landscape standards, mid-block connections for large developments, active frontage on designated corridors	Plazas and other publicly accessible open and gathering places, Additional public realm improvements	Additional public realm improvements can include tree canopy, wider sidewalk areas, and bike/ped connections, as well as improvements to existing City open space to increase utility and accommodate additional users

Sources: Mithun, EcoNorthwest, Fehr and Peers, City of Kirkland, 2021

# 6.0 Summary of Findings and Recommendations

## 6.1 Is the City's Station Area Vision Feasible?

The City must make significant capital investment under June Alternative A if the area develops under current trends. This Alternative does not generate much development project contribution to required infrastructure. June Alternative B: Transit-Connected Growth, however, creates an opportunity for the City to efficiently serve concentrated growth and more tools to make investments in public infrastructure and City operations.

To manage Alternative B successfully, the City will have to:

- Recognize that a variety of strategies will be required to balance the City's overall budget and Station Area needs.
- Take next steps to coordinate and implement Infrastructure and Services Investment strategies, including:
  - Utilize debt financing and potential rate increases to fund **sewer** and **water** infrastructure.
  - Address **parks** LOS and consider alternate delivery methods.
  - Obtain more direction from LWSD on what **school** capacity the District will need to accommodate more students and require that development addresses these needs.
- Take next steps to coordinate and implement Community Benefit strategies, including: TIF/District Financing for site acquisition and development; Baseline Requirements and Development Bonuses for a range of affordable housing, sustainability and mobility, schools and community amenities, and public realm benefits including providing on-site open space, educational or community space; fees-in-lieu; or partnership opportunities including Shared Use Agreements; and address parking policies to maximize potential benefit.

## 6.2 Recommendations

Based on the results of this analysis, which was conducted using existing City policies, the following recommendations are proposed as a framework for realizing fiscally sustainable infrastructure and services provision and the desired community benefits in the Study Area. These include a combination of existing policies and new policy changes that the City should consider as part of developing a preferred Plan Direction for the Station Area.

### 6.2.1 Potential Infrastructure-specific Financing and Community Benefit Strategies

#### *Public Infrastructure and Services*

In June Alternative B, Capital revenues are expected to cover capital costs for Transportation, Fire, Police Fleet, and municipal facilities [see more in Section 4.5.3 Capital Net Fiscal Impact By Capital Improvement Type (Alternative B)]. Potential strategies to address capital deficits for the remaining City

and other governmental services are described below. These include a blend of financing strategies and opportunities to leverage private investment through requirements and incentives.

### Stormwater

Development of the Study Area under Alternative B will not produce negative stormwater impacts due to current mitigation requirements that will require developed parcels to install large detention systems to reduce the flow off their development and help existing flooding issues. The only proposed stormwater project within the Study Area consists of replacing 520 feet of pipe along 120<sup>th</sup> Ave NE with a smoother pipe material. This will increase capacity through the stormwater main line, helping in all scenarios.

**Potential funding strategy.** The City can use stormwater capital fund reserves to fill the \$700,000 gap between the available stormwater facility charges and the infrastructure improvement cost in 2035.

### Water

The City has committed to relocate the water main under I-405 at a cost of \$7.8 million (YOES) per WSDOT requirements due to the construction of the BRT in either Alternative. The remaining water improvements are projected to be built by development at a cost of \$24.2 million. Although there is enough dedicated revenue generated cumulatively over the study period to cover the cost of the City-funded improvement, there will not be enough revenue available in the early years to cover the construction costs when they are anticipated to occur in 2027-2028.

**Potential financing strategy.** The City can issue a \$10 million 20-year bond to cover the cost of the improvement and maintain an annual surplus. A bond of that amount and length is anticipated to result in annual debt payments of \$685,000. Projected capital facility charge revenue and 7% of net new water utility revenue from growth in the Station Area are projected to be enough to cover the annual debt payments.

### Sewer

The City needs to make many significant sewer improvements in either Alternative to support the additional flows from the Station Area. The total cost of the improvements over the study period are estimated to be \$92.9 million, of which \$14.8 million are anticipated to be funded by development. The remaining \$78.1 million will need to be funded by the City. The City is anticipated to generate \$24.4 million in sewer capital facility charges on new development in the Station Area that can be used to offset these costs, leaving a cumulative gap of \$53.7 million over the study period.

**Potential financing strategy.** The City can fund sewer improvements with a combination of debt issuance and rate increases. Issuing a \$60 million 30-year bond in 2035, resulting in \$3.1 million annual debt payments, would cover the cost of needed sewer infrastructure improvements. To make annual debt payments, a rate increase on the overall base would be required, because there is not enough sewer capital facility charges or new sewer rate revenue from the Station Area to cover the payments. Because this investment is also required in Alternative A, where there are less dedicated revenues available to offset costs resulting in a larger City deficit, Alternative A requires a larger rate increase than Alternative B.

## Community Facilities and Benefits

### Parks

Under current target Levels of Service, some of which are acreage derived, the Parks capital needs under Alternative B are \$160.0 million. The majority of those costs, 75.8%, are associated with the acquisition and development of 15 acres of neighborhood parks and 22 acres of community parks, calculated under current LOS guidelines and are likely infeasible in the Station Area. The growth in the Station Area will generate some dedicated revenue that can be used to offset these costs (\$31.0 million in parks impact fees and \$35.4 million in REET 1) but it will not be enough to cover the costs and will result in a cumulative gap of \$93.5 million over the study period.

**Potential financing strategy.** Consider using a portion of the \$80.0 million remaining in general government operating surplus to offset costs. This strategy alone will not address parks capital needs.

#### Other potential strategies:

- **Policy changes:** Consider alternative non-acreage derived LOS guidelines more appropriate for urban centers, such as shifting the standards to geographic equity of park access within walking distance and inclusion of school facilities and non-City parks.
- **Leverage public assets and partnerships:**
  - Explore the ability of needed and planned infrastructure investments in the **public right-of-way**, including street and utility improvements, to offer **multiple benefits** and contribute to parks and open space. A multi-faceted streetscape improvement can easily incorporate linear parks.
  - **Leverage existing spaces.** Enhance existing neighborhood parks, open space around Forbes Lake, and Cross Kirkland Corridor with needed amenities to increase capacity (expand playgrounds, use vegetation to create intentional spaces for use and division of space).
  - Inventory **existing publicly owned parcels** for potential to support open space objectives. Identify parcels for neighborhood needs to support amenities like playgrounds, picnic areas, walking paths (multiple smaller parcels, parcels that allow for one or two amenities versus several in the same location).
  - Explore **clover leaf space** more for stormwater/natural areas/sustainable landscape areas.
  - **Shared Use** agreements to leverage existing park and recreation spaces for public use. Maintain existing Shared Use agreements and explore expanding these to maximize the use of existing or future community assets.
- **Community Park options:**
  - A series of strategies could support a larger park. This has been identified as one of the top candidate project types for a potential TIF district. In addition, there may be potential for Shared Use agreements to help satisfy Community Park needs.
  - Support complete re-design of Peter Kirk Park, including teen space, senior space, renovation of existing amenities, addition of new amenities.



- Support re-design of community parks to increase capacity for athletics, such as converting grass fields to synthetic or diamond to rectangular, add lights at sports fields and courts, additional amenities.
- Acquisition of Taylor Fields to support addition of amenities as identified in PROS plan (or long-term use given that the site is a closed landfill).
- **Development requirements and development bonuses** show potential to provide smaller scale publicly accessible open spaces and trail connections.
  - In-building or rooftop urban park amenities
  - Linear parks for safe pathways.
  - Pocket parks, including rooftop parks.
  - Dog parks, including rooftop parks.

It should be noted in the next steps that the Station Area would be subject to any voted Parks funding measures to address overall parks system needs.

### Affordable Housing

Based on existing Inclusionary Zoning requirements, development of the Study Area under Alternative A will produce minimal new affordable housing units, and Alternative B has the potential to produce between 400 and 1,200 new affordable housing units, if all allowed development is feasible, by the end of the 23-year study period.

**Potential community benefit strategy.** A commercial linkage program is the primary new strategy recommended to maximize affordable housing objectives, which would go beyond the City’s existing Inclusionary Zoning requirements for residential development. The Residual Land Value analysis determined that a Commercial Linkage Program has merit, with greatest potential for value capture for commercial development, and increasing value potential in 10+ story development compared with 5-9 story development. Mid-rise residential is not feasible everywhere in the near term, and additional affordability requirements or other value capture costs may delay development, which could result in less housing production subject to the inclusionary requirements. Parking policies should be reviewed and addressed to maximize potential for benefit. If the City did want to pursue increasing the existing Inclusionary Zoning requirements for affordable housing, it would be important to monitor how the policy change influences production. Finally, due to the existing jobs/housing imbalance in the Study Area, the City should consider allocating a portion of the Linkage Fees toward a workforce development program. As noted in the following section, next steps to pursue this strategy would include further coordination with other policy changes and a nexus study demonstrates the rationale and relationship between the development and the fee that is charged.

### Mobility

White not an explicit study topic, the ability for people of all ages and abilities to easily navigate the Station Area will improve community well-being, sustainability, and resilience. It is also directly related to the project’s objective to leverage the regional transit investment. Further, making policy and program changes to support transportation demand management (TDM) will facilitate development feasibility and the potential for value capture to be realized for community benefit. Mobility-related policy and program changes can accrue multiple benefits. The City should identify and prioritize multi-benefit

project opportunities and consider them as part of a TIF strategy, especially right-of-way projects where mobility and infrastructure needs overlap. The City should also consider the following baseline or incentive-based transportation demand management (TDM) changes within the Station Area as described in the Transportation Supplemental Study, Appendix 1: parking ratio reductions, unbundled and paid parking, requirements for large employers or multi-family properties to provide transit pass subsidies, managed parking strategies, TNC ridesharing programs, bikeshare or micro mobility programs, and shared off-street parking.

## **Sustainability**

Baseline requirements and density bonuses are the recommended strategies to achieve sustainability features and performance within the Station Area, through third-party green building certifications, energy, landscape, and stormwater standards, as well as tree canopy and stream improvements. The City should consider how these goals would fit into a menu-approach and which levels of performance or features are desirable as baseline requirements or as density bonus incentives, and any needed policy adjustments to support this. They should also explore the potential for partnerships around sustainability, climate action, health and well-being initiatives.

## **Schools**

Under either Alternative, the City will need to help the Lake Washington School District solve for additional school population. Initial estimates are that school capacity will need to increase by 153 students under Alternative A and 936 students under Alternative B. In addition, the community as well as Lake Washington School District have articulated an existing and growing need for childcare and early learning and education facilities.

Although the fiscal impact analysis did not estimate costs for Lake Washington School District, as they are a separate governmental entity from the City, the analysis did estimate anticipated revenues from school impact fees. It is estimated that there will be \$24.6 million in school impact fee revenue available for school capital needs in Alternative B. EcoNorthwest estimated that if the LWSD Capital Levy currently scheduled to expire in 2022 were to be extended throughout the life of this study period, it could raise as much as \$53.9 million in the Station Area.

### **Potential community benefit strategies:**

- In land-constrained locations like the Study Area, consider requirements or development bonuses for developments to provide space on-site. This can include educational and childcare space integrated into the development (most common for early learning, pre-K and specialized programs like STEM) or by setting aside land for future school development.
- Consider policy changes to define active frontages or required retail space to include educational, childcare, and community-serving spaces in order to implement a Development Bonus strategy.
- Explore partnership opportunities to align programs, such as Joint/Shared Use Agreements that broaden access to community-serving facilities.
- Consider increasing allowed development capacity on existing underutilized public parcels to support future development of new school space.

## 6.2.2 Recommended Next Steps

A **Public Infrastructure and Services Investment Framework** will be critical to catalyze transit-connected development and can help support coordination and implementation of various strategies.

- Identify **baseline requirements** for project-level infrastructure and contributions to the Station Area. Potential for value capture will be related to some policy changes, including reduced parking ratios and unbundling, modifying parks LOS methodologies to move toward geographic equity and inclusion of shared use facilities. **Next step:** Coordinate a comprehensive scan of existing and potential policy changes together with a Density Bonus Program. Base development standards should be calibrated so that all development is held to an acceptable minimum standard of public benefit provision through other strategies like mandatory impact fees and design standards.
- Use a **TIF District** to finance large, area-wide investments like streetscape improvements, major park, and potentially support additional school capacity and other infrastructure needs. **Next steps:** Conduct a TIF analysis, testing scenarios for TIF boundaries and projected revenues over time including development feasibility, identify target improvements. A Phase 1. TIF Strategy that looks at the TIF area, potential revenue, and eligible projects would cost about \$20k and take about three months. This should be paired project feasibility and conceptual study could range from \$40-70k depending on the number and extent of candidate projects. A Phase 2. TIF Implementation Study would create the district itself, and cost about \$40k over six to nine months. This will rely on supporting 30% design/engineering of TIF projects, and the costs and timeframe for this work is highly dependent on which projects are selected.

A **Community Benefits Policy Framework** can then support community benefits provisions through coordination and implementation of various strategies.

- Establish and confirm **baseline requirements** for affordable housing by maintaining existing inclusionary zoning, and consider sustainability measures, active frontages, and public realm improvements. Base development standards should be calibrated so that all development is held to an acceptable minimum standard of public benefit provision through other strategies like mandatory impact fees and design standards.
- Identify **partnership opportunities** to advance priority community benefits through program alignment or potential co-benefits. **Next steps:** The project team could create a partnership opportunities inventory and the City could use this as a base to conduct outreach to potential stakeholders on topics including the possibilities of Shared Use of community facilities and open space, integrated early education facilities, workforce development and green infrastructure programs. This work could be documented in the Final Station Area Plan.
- Develop a **Density Bonus Program** that can capture the value of more density for the community, particularly considering smaller publicly accessible open spaces, on-site educational and community facilities, transportation demand management (TDM) /Mobility measures, and additional sustainability measures. **Next steps:** Conduct a comprehensive scan of existing and potential policies together to establish base/bonus development allowances for zoning and develop a points-based system of benefits. Bonus allowances should be calibrated so they create a sufficient incentive to attract participation from developers. Coordinate with Lake Washington School District and other

aligned Early Education or Community Service providers regarding a potential incentive program for development to provide integrated educational spaces within projects. Defining base and bonus entitlements could occur within the Form Based Code development during later stages of planning. Either the City or a consultant could complete supplemental work to develop the points-based system that would implement these standards. For a consultant, it may cost about \$50k and could take about three months.

- Implement a mandatory **Commercial Linkage Fee** to address affordable housing and workforce development, leaving room for the density bonus system. This should work in partnership with other affordable housing strategies like the City's existing inclusionary zoning policies and state MFTE program. **Next step:** Complete a nexus study to determine fees and consider workforce development allocation. A nexus study would cost \$50-60k and would take from six to nine months, depending on how the City wants to engage with key stakeholders.

# Appendices

1. [Transportation Supplemental Study](#)
2. [Water and Sewer Supplemental Study](#)
3. [Stormwater Supplemental Study](#)



# Consultant Team Bio's

NE 85th Study Area Future Vision, Looking West





## Bob Stowe - Principal



Bob Stowe is the principal and founder of Stowe Development & Strategies — a company he formed in 2016 to help public sector clients succeed with their economic and community development interests. With 34 years of experience in progressive community transformations, Bob is one of the Northwest’s most innovative and entrepreneurial real estate and community developers. He uses sound long- range fiscal planning skills and has achieved enviable results in leading redevelopment efforts from the dream stage to construction. This is true for projects large and small, straightforward and complex.

Bob’s understanding and experience with tax increment financing, master plan development, transit oriented development, placemaking, negotiation of purchase and sale agreements, development agreements, public benefit agreements, and his ability to create public private partnerships make him an ideal public sector development partner.

Bob has been responsible for leading, managing, coordinating, and implementing a wide variety of complex and multi-faceted projects including, downtown revitalization plans, civic center plans and development, master plans, public-private partnerships, and transit-oriented developments to name a few.

Bob was the City Manager for the City of Bothell, Washington from 2005 to 2016 where he was the architect and leader of Washington’s largest and most successful publicly-led downtown revitalization. Under Bob’s leadership, this project utilized a Local Infrastructure Financing Tool award (AKA TIF light) as part of the funding package that stimulated private investment of over \$300 million; a very big step in achieving the City’s 25-year goal of \$650 million. The fact that nearly half that goal was reached in just a few years, during the Great Recession, and with leverage from public/private collaboration, made it all the more remarkable.

Bob guided the development of approximately \$150 million in public sector improvements (relocation of a state highway, creation of new streets, storm water system, parks, environmental clean-up, etc.) identified as necessary to achieve the revitalization vision. The massive public development plan and schedule also needed to align with private sector purchase of surplus land from the City, environmental remediation, public streets to be developed by the private sector, and on-site mixed-use development. Precise scheduling, communication and the ability to respond to changing conditions were skills that Bob successfully delivered on this project.

Before arriving in Bothell, Bob was the City Manager for the City of Mill Creek for nine years and helped lead development of the award-winning Mill Creek Town Center in the early 2000s. His first downtown transformation project began with the revitalization of Downtown Dayton, Washington in the late 1980s.

The hallmark of Bob’s effort is his commitment to create well designed and environmentally sustainable places where people want to live, work, and come together to celebrate. Bob has tackled the most difficult and complex projects, achieving the redevelopment and economic dreams of several communities with his failure is not an option approach.

### EDUCATION

- MBA, Albers School of Business & Economics, Seattle University (with honors).
- BA, Urban and Regional Planning, Eastern Washington University.

## **Morgan Shook - Director/Partner**



Morgan Shook is a Senior Policy and Economic Analyst working in real estate, land use, and transportation economics, and finance. He has deep expertise in economic, market and financial analytics that he brought to bear in business, enterprise, and policy settings.

Morgan has worked for a range of government, business, and non-profit clients to advance their missions that in diverse set areas and topics.

Morgan has worked on every form of tax increment financing in Washington including Community Revitalization Financing, Local Infrastructure Financing Tool, Local Revitalization Financing LRF, Landscape Conservation and Local Infrastructure Program, as well as the recently passed Tax Increment Financing bill in the 2021 legislative session.

Before joining ECONorthwest, Morgan worked in biotechnology development at the Institute for Systems Biology, and health disparities research at the University of Chicago. Morgan recently served on the Seattle Planning Commission.

### **EDUCATION**

- M.U.R.P., Portland State University
- B.S. Molecular Biology, University of Puget Sound
- Certificate in Commercial Real Estate Development, University of Washington Extension

### **Areas of Expertise**

- Economic Development
- Affordable Housing
- Land Use Planning
- Market & Feasibility Analysis
- Infrastructure & Finance Funding
- Transit-Oriented Development

**OFFICE OF THE TREASURER**  
**STATE OF WASHINGTON**  
Mike Pellicciotti



March 27, 2023

Kurt Triplett, City Manager  
City of Kirkland  
123 5<sup>th</sup> Avenue  
Kirkland, WA 98033

Dear Mr. Triplett,

This letter confirms the Office of the State Treasurer's ("OST") receipt and review of the City of Kirkland's (the "City") revised tax increment financing ("TIF") project analysis, provided on March 6, 2023, and associated supplemental documents. OST and Piper Sandler, the state's municipal advisor, have reviewed the provided material. Based on our review, which is detailed in the sections to follow, we believe that the City's project analysis, supported by the supplemental documents, generally addresses the topics listed in section 020(2) of RCW 39.114 (the "TIF Statute").

Please note, this review is based on the information, projections, and assumptions provided by the City and its consultants in the project analysis and other supporting documents submitted by the City and its consultants. OST has not independently verified the data or its accuracy or performed any feasibility analyses or projections of its own.

**Executive Summary**

The proposed Tax Increment Area ("TIA") includes a portion of the Station Area east of I-405 of approximately 52.5 acres. The City is planning for land use and public improvements in the Station Area in connection with the voter-approved Sound Transit 3 ("ST3") transit funding package, which includes a reconfigured interchange and Bus Rapid Transit ("BRT") Stride station. The objective of the TIA, as described by the City's project analysis, is to leverage the BRT station regional transit investment to maximize transit-oriented development and create the most "Opportunity and Inclusion, Value for the City, Community Benefits, and Quality of Life."

The City's project analysis describes three public infrastructure projects to be financed by the TIA in order to encourage private development in the area. The total cost of these projects is estimated to be \$58,000,000 in projected year-of-expenditure dollars and are scheduled to begin construction between 2023 and 2028. The project analysis prudently includes three development program scenarios ('Baseline', 'Reduced', and 'Core') to help assess potential risk based on different levels of private development within the TIA.

To finance the public infrastructure improvements, the City intends to issue Limited Tax General Obligation ("LTGO") bonds, which will be backed by the full faith and credit of the City. Should tax allocation revenues be insufficient to fully pay the debt service on the LTGO bonds, the full faith and credit pledge would require the City to pay the remaining debt service due on the bonds from the City's general revenues. As shown in Tables 3 and 4, the projections contained in the project analysis indicate that in each of the development program scenarios, the City will be required to pay some portion of the debt

service due on the LTGO bonds from general revenues, especially in early years, due to projected shortfalls in tax allocation revenues.

In our review of the project analysis, one of our primary goals is to ensure that risks to the City are adequately disclosed. As we describe further below, in this proposed TIA, the primary risks to the City are lower-than-expected tax allocation revenues (due to delays in construction of the private development within the TIA) and lower-than-expected future assessed values in the TIA.

### Statutory Role and Purpose of Review

As enacted by the 2021 Washington State Legislature, section RCW 39.114.020(7)(b) of the TIF Statute requires that prior to the adoption of an ordinance authorizing the creation of a TIA, the local government proposing the TIA must provide a project analysis to OST for review. OST must complete the review within 90 days of receipt of the project analysis. Upon completing the review, OST must promptly provide to the local government any comments regarding suggested revisions or enhancements to the project analysis that OST deems appropriate. OST received the first draft of the City's project analysis on November 18, 2022, and an updated project analysis was provided by the City to OST on March 6, 2023.

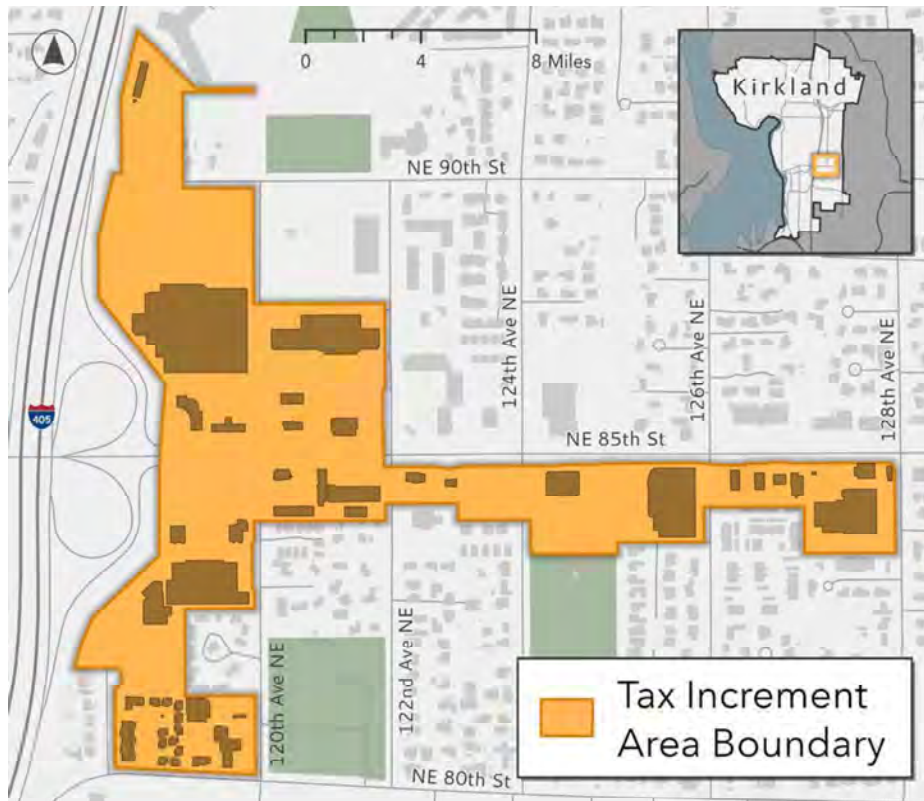
### Project Team

<b>Jurisdiction:</b> City of Kirkland	<b>County:</b> King County
<b>Project Title:</b> NE 85 <sup>th</sup> Street Station Area	<b>Redevelopment Area:</b> NE 85 <sup>th</sup> Street Station Area
<b>City of Kirkland:</b> Kurt Triplett, City Manager Tracey Dunlap, Deputy City Manager (now retired) Michael Olson, Director of Finance & Admin. Sri Krishnan, Deputy Director of Finance & Admin. George Dugdale, Financial Planning Manager Kevin Pelstring, Financial Planning Supervisor Allison Zike, Deputy Planning & Building Director	<b>Consultants:</b> Bob Stowe, Stowe Development & Strategies Morgan Shook, ECONorthwest Deanna Gregory, Bond Counsel, Pacifica Law Group Stacey Crawshaw-Lewis, Bond Counsel, Pacifica Law Group Fred Eoff, Financial Advisor, PFM - Director Maggie Marshall, Financial Advisor, PFM - SMC

### Proposed Tax Increment Area

The TIA includes a portion of the Station Area east of I-405 of approximately 52.5 acres, with blocks to the north and south of NE 85<sup>th</sup> Street (see Figure 1). The assessed valuation ("AV") of the TIA in 2022 is approximately \$130,747,600 (about 0.35% of the City's total AV), which is less than the statutory limitations of the lesser of \$200 million AV and 20% of the City's total AV (\$36,947,748,933). According to the project analysis, the boundary represents key areas that are expected to be redeveloped over time, as the result of the infrastructure improvements funded by the TIA. Table 1 shows a list of parcels included in the proposed TIA.

Figure 1 – Map of Proposed Tax Increment Area



Source: City of Kirkland

Table 1 – Summary of TIF Parcels

Parcel ID	Appraised Land Value	Appraised Improvement Value	Total Appraised Value	Parcel ID	Appraised Land Value	Appraised Improvement Value	Total Appraised Value
1238500140	\$2,863,600	\$0	\$2,863,600	1233100170	\$2,184,100	\$320,600	\$2,504,700
1238500135	\$834,600	\$0	\$834,600	1233100161	\$385,000	\$0	\$385,000
1238500132	\$1,349,600	\$1,000	\$1,350,600	1233100155	\$1,412,400	\$0	\$1,412,400
1238500125	\$2,463,200	\$309,400	\$2,772,600	1233100151	\$1,280,200	\$0	\$1,280,200
1238500115	\$8,210,900	\$3,704,500	\$11,915,400	1233100150	\$1,335,300	\$0	\$1,335,300
6453600000	\$137,000	\$452,000	\$589,000	1233100145	\$5,429,000	\$0	\$5,429,000
4146790000	\$112,700	\$375,300	\$488,000	1233100141	\$1,280,200	\$0	\$1,280,200
1233100400	\$3,048,400	\$0	\$3,048,400	1233100080	\$1,023,100	\$0	\$1,023,100
1233100291	\$635,300	\$212,000	\$847,300	1233100075	\$1,280,400	\$0	\$1,280,400
1233100290	\$1,443,000	\$1,000	\$1,444,000	1233100680	\$7,452,400	\$1,000	\$7,453,400
1233100282	\$780,800	\$2,707,600	\$3,488,400	1233100555	\$1,497,800	\$547,500	\$2,045,300
1233100281	\$2,077,300	\$4,914,200	\$6,991,500	1233100550	\$0	\$976,100	\$976,100
1233100216	\$1,040,400	\$247,700	\$1,288,100	1233100545	\$1,775,400	\$0	\$1,775,400
1233100215	\$1,922,300	\$1,572,400	\$3,494,700	1233100540	\$1,922,100	\$96,700	\$2,018,800
1233100200	\$1,280,200	\$13,601,700	\$14,881,900	1233100405	\$3,593,000	\$0	\$3,593,000
1233100198	\$1,280,200	\$0	\$1,280,200	1233100402	\$3,438,200	\$997,100	\$4,435,300
1233100197	\$1,280,200	\$0	\$1,280,200	1238500055	\$1,846,100	\$1,000	\$1,847,100
1233100190	\$1,321,700	\$0	\$1,321,700	1238500050	\$2,997,400	\$3,897,800	\$6,895,200
1233100172	\$490,000	\$2,430,400	\$2,920,400	1238500035	\$16,546,200	\$1,000	\$16,547,200
1233100171	\$372,000	\$428,000	\$800,000	1233100535	\$1,648,200	\$0	\$1,648,200
1233100530	\$1,681,700	\$0	\$1,681,700				
Total				Total			\$130,747,600

Source: City of Kirkland



## Project Description

### *Public Improvements Within the TIA*

In order to encourage the anticipated private development in the TIA, the project analysis identifies three infrastructure improvement projects that would support and help advance private redevelopment in the Station Area. These projects, described below, are expected to be funded with the proceeds of the LTGO bonds to be issued in connection with this TIA.

**1) NE 85<sup>th</sup> Street and I-405 Sewer Main Capacity Enhancements - \$16,000,000**

Construction of a new sewer main alignment to cross the I-405 along NE 90<sup>th</sup> Street and to improve the existing sewer line on NE 87<sup>th</sup> Street. Construction is anticipated in 2027-2028.

**2) Forbes Lake Park Development - \$12,000,000**

Forbes Lake Park is proposed to have an at least 10-foot wide boardwalk with connections to North Rose Hill Woodlands Park as well as active transportation facilities nearby. Construction is anticipated in 2028.

**3) 124<sup>th</sup> Avenue NE Roadway Widening: NE 84<sup>th</sup> Lane to NE 90<sup>th</sup> Street - \$30,000,000**

Includes widening of 124<sup>th</sup> Avenue NE to five lanes and providing raised and protected bike lanes from NE 85<sup>th</sup> Street through the NE 90<sup>th</sup> Street intersection. This project also includes continuation of protected bike lanes south through the NE 85<sup>th</sup> Street intersection to NE 84<sup>th</sup> Lane to connect to exiting on-street bike lanes. Construction is anticipated in 2028-2029.

### *Private Development Within the TIA*

The project analysis includes three development program scenarios to help assess potential risk based on different levels of private development within the TIA. Accordingly, the private development timeline varies depending on each scenario. Generally, it appears development is expected to begin in 2024 and continue through at least 2040, except for the 'Core' development program scenario, which has development continuing only through 2030. Figure 2 shows the developed sites under each scenario. The City has identified the 'Reduced' development program as the scenario most likely to occur.

**Figure 2 – Map of Development Site Scenarios**

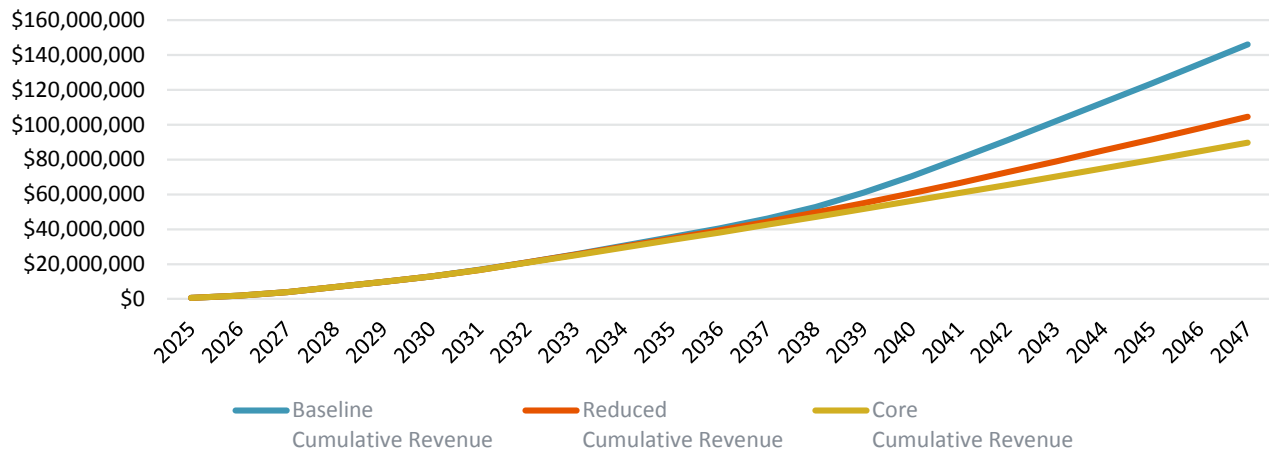


Source: City of Kirkland

**Tax Allocation Revenue Projections**

The project analysis indicates that the City will begin receiving tax allocation revenues in 2025. In terms of revenue projections, all three scenarios are identical through 2030 and do not materially differ until after 2035. In the ‘Baseline’ development program scenario, revenues are forecast to be \$624,000 in 2025 (as with all three scenarios) and increase to over \$11 million by 2047 (totaling \$146,056,000 over the entire life of the TIA). Annual revenues for the ‘Reduced’ development program reaches \$6.5 million in 2047 (total TIF revenue \$104,572,000). Revenues in the ‘Core’ development program reaches \$4,925,000 in 2047 (total TIF revenue \$89,669,000).

**Figure 3 – Cumulative TIF Revenue Projects**



Source: City of Kirkland

**Financing Plan**

The City anticipates issuing \$18 million of debt in early 2025 and \$40 million of debt in early 2028 to fund the proposed infrastructure projects.<sup>1</sup> As stated in the project analysis, the City will need to service that debt with available resources regardless of whether the anticipated private development occurs, or assessed values increase, within the TIA. The City acknowledges that incremental revenues early in the TIF period may not be sufficient to service the debt; as private development construction will be in progress, it will take time to realize the incremental assessed value contributions that will ultimately determine the TIF allocation revenues estimated in their report. The debt is currently expected to be structured with level annual payments based on an estimated true interest cost of 4.50%.

The project analysis discusses the possibility of adjusting the timing and amount of debt issued based on development activity (i.e., delaying issuance, backloading debt, and/or use of capitalized interest). As such, it is possible that the City’s issuance plans could change to better reflect progress in the development.

<sup>1</sup> Page 23 of the project analysis lists 2025 and 2028 as the bond issuance years, while information on page 27 lists different years. It is recommended that the City verify and correct this information.

## Debt Capacity

Based on the City's total 2022 assessed value of \$36,947,748,933, the City has \$554,216,234 in total non-voted debt capacity (1.5% of 2022 AV). The City currently has \$61,340,000 outstanding non-voted debt, leaving sufficient net non-voted debt capacity of \$492,876,234 before the proposed \$58,000,000 financing.

**Table 2 – Debt Capacity**

2021 Assessed Valuation for 2022 Collections	\$36,947,748,933
Non-Voted Debt Capacity (1.5% of AV)	554,216,234
Less: Outstanding Non-Voted Debt	(61,340,000)
Remaining Non-Voted Debt Capacity	492,876,234
Less: Financing Proposed	(58,000,000)
<b>Projected Remaining Non-Voted Capacity</b>	<b>\$434,876,234</b>
<b>Projected Remaining Non-Voted Capacity %</b>	<b>78.47%</b>

Source: City of Kirkland

## Projected Debt Service Coverage

Depending on the pace and final features of the completed private development, the amount of shortfalls in tax allocation revenues compared to debt service that that the City will be required to fund varies greatly between the three development program scenario.

- In the 'Baseline' scenario, the City will be required to fund debt service revenue shortfalls in years 2025 through 2032 (excluding 2027) with general City revenues, with projections showing that it will be fully reimbursed for these payments by the end of 2039.
- In the 'Reduced' scenario, the revenue shortfalls extend through 2033, with the City being fully reimbursed by the end of 2042.
- For the 'Core' scenario, the revenue shortfalls extend through 2037, with City being fully reimbursed by the end of 2047.

Tables 3 and 4 below summarize the total tax allocation revenues, annual surpluses and deficits, and debt service coverage for the three development program scenarios.

**Table 3 – Tax Allocation Revenues and Debt Service Coverage**

Development Program	First Year Tax Allocation Revenues Exceed TIF Debt Service <sup>1</sup>	Year That Allocation Revenues Fully Reimburse Debt Service Shortfalls	Total Projected TIF Revenue	Total Projected TIF Debt Service	Projected Maximum Cumulative Shortfall	Total Surplus/ (Shortfall)	Average Debt Service Coverage Ratio
Baseline	2033	2039	\$146,056,000	\$89,180,000	(\$5,429,000)	\$56,876,000	1.66x
Reduced	2034	2042	\$104,572,000	\$89,180,000	(\$5,518,000)	\$15,392,000	1.19x
Core	2038	2047	\$89,669,000	\$89,180,000	(\$6,106,000)	\$489,000	1.02x

1. Revenues exceed debt service in 2027 during the reduced debt service period.  
Source: City of Kirkland

**Table 4 – TIF Debt Service Coverage**

Year	Baseline			Reduced			Core		
	TIF Revenues	TIF Debt Service	Cumulative Surplus (Shortfall)	TIF Revenues	TIF Debt Service	Cumulative Surplus (Shortfall)	TIF Revenues	TIF Debt Service	Cumulative Surplus (Shortfall)
2025	624,000	1,384,000	(760,000)	624,000	1,384,000	(760,000)	624,000	1,384,000	(760,000)
2026	1,282,000	1,384,000	(102,000)	1,282,000	1,384,000	(102,000)	1,282,000	1,384,000	(102,000)
2027	2,062,000	1,384,000	(184,000)	2,062,000	1,384,000	(184,000)	2,062,000	1,384,000	(184,000)
2028	2,839,000	4,459,000	(1,620,000)	2,839,000	4,459,000	(1,620,000)	2,839,000	4,459,000	(1,620,000)
2029	2,986,000	4,459,000	(1,463,000)	2,986,000	4,459,000	(1,463,000)	2,986,000	4,459,000	(1,463,000)
2030	3,171,000	4,459,000	(1,288,000)	3,171,000	4,459,000	(1,288,000)	3,171,000	4,459,000	(1,288,000)
2031	3,739,000	4,459,000	(720,000)	3,717,000	4,459,000	(742,000)	3,695,000	4,459,000	(764,000)
2032	4,305,000	4,459,000	(154,000)	4,261,000	4,459,000	(198,000)	4,216,000	4,459,000	(243,000)
2033	4,612,000	4,459,000	153,000	4,436,000	4,459,000	(23,000)	4,260,000	4,459,000	(199,000)
2034	4,925,000	4,459,000	466,000	4,615,000	4,459,000	156,000	4,305,000	4,459,000	(154,000)
2035	4,977,000	4,459,000	518,000	4,664,000	4,459,000	205,000	4,350,000	4,459,000	(109,000)
2036	5,029,000	4,459,000	570,000	4,712,000	4,459,000	253,000	4,395,000	4,459,000	(64,000)
2037	5,552,000	4,459,000	1,093,000	4,997,000	4,459,000	538,000	4,441,000	4,459,000	(18,000)
2038	6,658,000	4,459,000	2,199,000	5,287,000	4,459,000	828,000	4,488,000	4,459,000	29,000
2039	8,240,000	4,459,000	3,781,000	5,384,000	4,459,000	925,000	4,534,000	4,459,000	75,000
2040	9,490,000	4,459,000	5,031,000	5,591,000	4,459,000	1,132,000	4,581,000	4,459,000	122,000
2041	10,157,000	4,459,000	5,698,000	5,933,000	4,459,000	1,474,000	4,629,000	4,459,000	170,000
2042	10,616,000	4,459,000	6,157,000	6,170,000	4,459,000	1,711,000	4,677,000	4,459,000	218,000
2043	10,728,000	4,459,000	6,269,000	6,235,000	4,459,000	1,776,000	4,726,000	4,459,000	267,000
2044	10,841,000	4,459,000	6,382,000	6,300,000	4,459,000	1,841,000	4,775,000	4,459,000	316,000
2045	10,955,000	3,075,000	7,880,000	6,385,000	3,075,000	3,290,000	4,824,000	3,075,000	1,749,000
2046	11,071,000	3,075,000	7,996,000	6,432,000	3,075,000	3,357,000	4,874,000	3,075,000	1,799,000
2047	11,187,000	3,075,000	8,112,000	6,499,000	3,075,000	3,424,000	4,925,000	3,075,000	1,850,000
Total <sup>1</sup>	146,056,000	89,180,000	56,876,000	104,572,000	89,180,000	15,392,000	89,669,000	89,180,000	489,000

1. Total row for debt service coverage reflects average coverage ratio.  
2. Assumes interest rate of 4.50%.

Source: City of Kirkland

### City of Kirkland Financials

The City provided information summarizing the funds available to pay LTGO debt service for the past five years, primarily consisting of General Fund and Excise Capital Improvement Fund monies. These combined funds produced a surplus in all five years, with net revenues ranging from \$27 million to \$40 million. A portion of these funds appear to have been utilized to fund capital projects in the past; however, these funds could be reprogrammed towards the payment of debt service, if necessary. The TIF debt service projections show maximum annual debt service of \$4,459,000.

The City's General Fund balance, including the Excise Capital Improvement Fund, has totaled around \$100 million annually (just over 100% of annual expenditures, excluding capital). In the most conservative development program scenario, the City projects a cumulative deficit in tax allocation revenues of just over \$6.1 million, or 5.6% of the City's 2021 ending General Fund balance.

In the event of a temporary or long-term tax allocation revenue shortfall, the City's fund balances, or other current capital projects, may be negatively impacted.

**Table 6 – Revenue Available for Debt Service**

		2017	2018	2019	2020	2021
<b>Beg. Balance</b>						
	General Fund	46,138,892	50,560,881	61,091,511	74,002,754	81,101,362
	Excise CIP	21,785,577	25,062,775	24,397,555	12,833,492	19,344,453
	Debt Service Fund	331,708	347,643	356,525	373,074	925,859
	<b>Total</b>	<b>68,256,177</b>	<b>75,971,299</b>	<b>85,845,591</b>	<b>87,209,320</b>	<b>101,371,674</b>
<b>Revenue</b>						
	General Fund	108,137,634	117,588,709	125,703,639	131,875,806	138,274,477
	Excise CIP	10,575,074	12,460,244	15,982,701	13,346,869	17,839,679
	Debt Service Fund	1,604,877	1,586,012	1,565,131	1,343,071	1,042,905
	<b>Total</b>	<b>120,317,585</b>	<b>131,634,965</b>	<b>143,251,471</b>	<b>146,565,746</b>	<b>157,157,061</b>
<b>Expenditures</b>						
	General Fund	93,131,793	99,661,402	103,190,314	114,331,518	117,333,422
	Excise CIP					
	Debt Service Fund					
	<b>Total</b>	<b>93,131,793</b>	<b>99,661,402</b>	<b>103,190,314</b>	<b>114,331,518</b>	<b>117,333,422</b>
<b>Income Above Expenditures</b>		27,185,792	31,973,563	40,061,157	32,234,228	39,823,639
<b>Total Revenue Available</b>	<b>Total</b>	<b>95,441,969</b>	<b>107,944,862</b>	<b>125,906,748</b>	<b>119,443,548</b>	<b>141,195,313</b>
<b>Debt Service</b>		4,147,909	4,127,343	4,101,747	4,075,708	3,536,211
<b>Other Inflows (Outflows)</b>						
	General Fund	(11,781,353)	(7,396,677)	(11,876,677)	(10,445,681)	(14,497,380)
	Excise CIP	(7,297,877)	(13,125,464)	(27,546,764)	(6,835,908)	(16,387,640)
	Debt Service Fund	2,558,967	2,550,213	2,553,165	3,285,422	2,500,569
	<b>Total</b>	<b>(16,520,263)</b>	<b>(17,971,928)</b>	<b>(36,870,276)</b>	<b>(13,996,167)</b>	<b>(28,384,451)</b>
<b>Ending Balance</b>						
	General Fund	49,363,380	61,091,511	71,728,158	81,101,362	87,545,037
	Excise CIP	25,062,775	24,397,555	12,833,492	19,344,453	20,796,493
	Debt Service Fund	347,643	356,525	373,074	925,859	933,123
	<b>Total</b>	<b>74,773,798</b>	<b>85,845,591</b>	<b>84,934,724</b>	<b>101,371,674</b>	<b>109,274,653</b>
<b>Restricted Funds</b>						
	Non-spendable	443,551	743,419	839,775	819,265	871,068
	Drug Enforcement	116,072	393,670	148,975	100,286	74,397
	Fire Interlocal	130,753	252,787	130,702	124,424	159,334
	Prop one			345,943	888,783	751,530
	Fire pension	1,197,501	1,306,638	1,264,218	1,306,682	1,292,976
	Committed ARCH				4,696,369	2,266,988
	<b>Total</b>	<b>1,887,877</b>	<b>2,696,514</b>	<b>2,729,613</b>	<b>7,935,809</b>	<b>5,416,293</b>
<b>Ending Available for Debt Service</b>		<b>72,885,921</b>	<b>83,149,077</b>	<b>82,205,111</b>	<b>93,435,865</b>	<b>103,858,360</b>

Source: City of Kirkland



## Key Risks to the City

From our review of the project analysis, it appears that the project will provide significant benefit to the City and region. Nonetheless, the project comes with certain risks to the City, primarily related to the construction timeline for public improvements within the TIA and the sufficiency of projected tax allocation revenues to repay LTGO bonds that the City expects to issue to finance public infrastructure improvements.

During years with shortfalls, the City will be required to pay any difference between debt service due and tax allocation revenues received from general City revenues. While the City plans to reimburse itself for such debt service payments made from general City revenues, it is important for decision makers to be aware of the potential magnitude and timing of such payments and reimbursements and, since the TIF legislation limits the ability to collect tax allocation revenues to a period of 25 years, delays could also reduce the overall amount of tax allocation revenues that would be received by the City. Additional factors that could impact tax allocation revenues are described below:

Escalation of Project Costs: With public improvements projected to be completed from 2027 through 2029, inflation could have a significant impact on the projected cost of these projects. However, this is somewhat mitigated by the inclusion of a 30% contingency in the projections. The project analysis shows cost inflation for the projects of approximately 4.00% - 5.00% per annum. According to Mortenson's Third Quarter 2022 report, construction cost inflation for Seattle was 9.3% YoY.

Permits: Unforeseen delays in permits could negatively impact the construction of the expected residential, commercial, and mixed-use properties within the TIA. Delays to either the public improvements or the private developments could negatively impact the timing and/or amount of tax allocation revenues.

Economic Conditions: The timing of tax allocation revenues could be negatively impacted by a downturn in the economy. The planned development is multi-faceted with commercial, mixed-use, multi-family residential, and office components. Given the diversity in product type, a variety of economic factors could negatively impact the timeline and ultimate demand for development, jeopardizing the rate and scale of private development and reducing potential tax allocation revenues.

Construction Delays: Any setback or delay in the private developers' ability to complete construction projects could harm tax allocation revenues. Whether the cost of the improvements themselves or some unforeseen change in developers' abilities to complete both their public improvements and private developments, the City will remain responsible for repaying the LTGO bonds issued for the project, once issued. Moreover, any delay in the City's ability to complete the public improvements necessary for private developers to close on contracts or initiate private developments exposes the project to risk of delayed timing and/or a reduced amount of tax allocation revenues.

Assessed Valuations: As private developments are completed, tax allocation revenues may be less than anticipated if the assessed value projections do not materialize or take more time to fully hit the tax rolls than is currently projected. If assessed valuations come in lower than or later than expected, projected tax allocation revenues would be reduced.

**Interest Rate Risk:** The City is exposed to interest rate risk until its bonds are sold. The key assumption of a 4.5% interest rate for the LTGO bonds offers a slight cushion to current market conditions. However, in the event that interest rates rise to levels in excess of this assumption, debt service will exceed the amounts assumed in the project analysis.

**Risk Summary:** The general impact to the City if any of the risk factors outlined above are realized could be a greater reliance on the City's general revenues to pay the debt service on the LTGO bonds issued to fund public improvements in the TIA. Potential negative cashflows during these periods of time will require the City to use general City revenues or reserves. If tax allocation revenues end up being lower than expected, it will force the City to apply more of its available funds towards the repayment of the LTGO bonds, reducing the City's ability to allocate those funds to other projects or operations. Likewise, if tax allocation revenues end up being lower than expected, the City is also at risk of not being fully reimbursed from tax allocation revenues for any debt service payments that were made from general revenues.

### **Recommendations**

The NE 85<sup>th</sup> Street Station Area Development is a significant long-term and large-scale project. To help ensure the long-term financial success of the project and to minimize risk, we recommend the City continuously monitor the risks identified and consider the following measures.

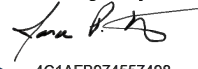
1. We recommend that the City discuss how much risk exposure is appropriate for the project and how much potential debt service costs it is willing to cover to advance the project through years of tax allocation revenue shortfalls.
2. Based on the City's willingness to cover potential debt service costs, we recommend the City consider budgeting for and setting aside funds to cover potential tax allocation revenue shortfalls.
3. As the project moves forward, coordinate closely with the King County Assessor's Office to help ensure that the tax allocation revenue projections match the County's assessment process and are as realistic as possible.
4. The City's interest rate assumptions contain only a small amount of cushion compared to current market conditions. We recommend that the City consider using somewhat more conservative interest rate assumptions, especially if the issuance of the bonds extends into 2028.
5. Given that the revenue projections through 2030 are identical for the three development program scenarios, we recommend performing additional analysis to refine the impact of delays in development occurring prior to 2030.
6. We recommend the City revisit public improvement cost projections frequently and utilize a publicly recognized inflation index to inform inflation projections.
7. The City should note that page 27 of the project analysis dated March 6, 2023 references bond issuance dates of 2024 and 2026, whereas pages 22 and 28, along with the debt service tables, reflect issuances in 2025 and 2028.

Thank you for the opportunity to review the City's TIA project analysis. Based upon the information provided to date in connection with this project, this concludes our review. If there are material changes

in the scope, timing, or cost of the project, please let us know. We wish the City all the best with the project.

Respectfully,

Mike Pellicciotti  
Washington State Treasurer

DocuSigned by:  


4C1AFB974557498...  
Jason Richter  
Deputy Treasurer